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ABSTRACTS

Neopatrimonial Regimes and Political Transitions in Africa

By MICHAEL BRATTON and NICOLAS VAN DE WALLE

This article proposes revisions to the theory of political transitions by analyzing patterns of recent popular challenges to neopatrimonial rule in Africa. The approach is explicitly comparative, based on contrasts between Africa and the rest of the world and among regimes within Africa itself. Arguing against the prevalent view that transitions unfold unpredictably according to the contingent interplay of key political actors, the authors contend that the structure of the preexisting regime shapes the dynamics and sometimes even the outcomes of political transitions. They find that in contrast to transitions from corporatist regimes, transitions from neopatrimonial rule are likely to be driven by social protest, marked by struggles over patronage, and backed by emerging middle classes. Following Dahl, the authors compare African regimes on the basis of the degree of formal political participation and competition allowed. They find that regime variants—personal dictatorship, military oligarchy, plebiscitary one-party regime, and competitive one-party regime—are associated with distinctive transition dynamics. Whereas transitions from military oligarchies are typically managed from the top down and are relatively orderly, transitions from plebiscitary systems often occur discordantly through confrontational national conferences. A consolidated democracy is least likely to result from the abrupt collapse of a personal dictatorship and is most likely, though never guaranteed, from a graduated transition from a competitive one-party regime. In general, getting to democracy is problematic from all regimes that lack institutional traditions of political competition.

Learning, Realism, and Alliances

the weight of the shadow of the past

By DAN REITER

This article presents and tests a theory of learning in international politics. Drawing primarily from social psychology and organization theory, the learning theory proposes that lessons tend to be drawn only from high-impact events in world politics, such as large wars and economic depressions. Lessons drawn tend to be simple and are oriented around the question of which policies are likely to be successful and which policies are likely to fail. This learning theory is tested on the alliance choices of small powers in the twentieth century. The predictions of two learning hypotheses are compared with those of a leading realist explanation of alliance choices, balance of threat theory. Quantitative analysis of small powers' alliance choices reveals that a small power's experience in the previous world war is a very powerful explanation of its peacetime alliance choices after that war, whereas the level of threat in the international environment has only marginal effects on the small power's alliance choices. Further, these threat effects may be in the opposite direction of that predicted by balance of threat theory.

Small States in Big Trouble

state reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s

By HERMAN SCHWARTZ

In Australia, Denmark, New Zealand, and Sweden in the 1980s, coalitions of politicians, fiscal bureaucrats, and capital and labor in sectors exposed to international competition allied to transform the largest single nontradables sector in their society: the state, particularly the welfare state. They exposed state personnel and agencies to market pressures and competition to reduce the cost of welfare and other state services. The impetus for change came from rising foreign public and private debt. Rising public debt levels and expensive welfare states interacted to create a tax wedge between employers' wage costs and workers' received wages. This undercut international competitiveness, worsening current account deficits and leading to more foreign debt accumulation. Two factors explain variation in the degree of reorganization in

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each country: differences in their electoral and constitutional regimes; and the willingness of left parties to risk splitting their core constituencies. Introduction of market pressures is an effort to go beyond the liberalization of the economy common in industrial countries during the 1980s, and both to institutionalize limits to welfare spending and to change the nature of state-society relations, away from corporatist forms of interest intermediation. In short, not just less state, but a *different* state.

Financial Incentives and Central Bank Authority in Industrializing Nations

By SYLVIA MAXFIELD

Institutionalist models of macroeconomic performance in advanced industrial countries focus on central bank independence. In newly industrializing countries, however, the behavioral authority of the central bank is a much more significant predictor of inflation than is legal independence, because laws there are not the source of central bank ability to create or defend macroeconomic stability. Financial structures and the incentives they create for government politicians, private bankers, and industrialists explain cross-national variation in the interest and capacity of central banks in developing countries. The greater public sector deficits are, the weaker and/or more dependent private banks are on state assistance; and the larger the portion of industry finance covered by commercial bank loans or state credits, the less likely it is that there will be an authoritative, conservative central bank. Mexico, Thailand, Brazil, and South Korea are the four country cases considered in depth.

Barriers to Collective Action

steelworkers and mutual dependence in the former soviet union

By STEPHEN CROWLEY

The author examines the question of why labor in the former Soviet Union has remained so quiet during this tumultous period. He conducts a most similar case study of coal miners, who have struck and organized militant trade unions, and of steelworkers in the same communities, who have not. To explain the lack of strike activity, the concept of mutual dependence is developed, whereby the enterprise is dependent on workers in a labor-short economy and workers in turn have been dependent on the enterprise for the provision of goods and services in short supply. The provision of a high level of such goods and services through the workplace was found to prevent independent worker activity in steel mills and certain coal mines. Implications are drawn for theories of collective action and the study of the former Soviet Union and its economic and political transformation.

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NEOPATRIMONIAL REGIMES AND POLITICAL TRANSITIONS IN AFRICA

By MICHAEL BRATTON and NICOLAS VAN DE WALLE *

Introduction: Comparing Political Transitions

THE current wave of scholarly studies of democratization and political transition is not fully comparative. Conceptually, these studies employ models of political change that are useful in explaining the demise of bureaucratic forms of authoritarianism but cannot account for transitions from more personalistic types of rule. Empirically, entire regions of the world are excluded. Whereas most studies of democratization have focused on Latin America and Southern Europe and latterly on Eastern Europe, Africa has received much less attention. In this article, we examine recent patterns of political change in Africa and on that basis propose revisions to the theory of political transitions.

Africa is not immune from the global challenge to authoritarianism. Between 1990 and 1993 more than half of Africa's fifty-two governments responded to domestic and international pressures by holding competitive presidential or legislative elections. The dynamics and outcomes of these transitions have been highly variable: in some cases, a competitive election has led to an alternation of political leaders and the emergence of a fragile democratic regime; more often the transition has been flawed (with the incumbent stealing the election), blocked (with the incumbents and opposition deadlocked over the rules of the political game), or precluded (by widespread civil unrest).[1] While democratization is clearly incomplete in Africa, it has already discredited military and one-party regimes, few of which are likely to survive intact. And recent African experience poses

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[1] Of the 18 presidential elections held in Africa between 1990 and March 1993, 9 were vouchsafed as "free and fair" by international observers, and 8 resulted in the peaceful replacement of the incumbent ruler. In all cases where the incumbent survived, the opposition charged electoral fraud. See Michael Bratton, "Political Liberalization in Africa in the 1990s: Advances and Setbacks" (Paper presented at a donors conference on Economic Reform in Africa's New Era of Political Liberalization, Carnegie Endowment for International Peace, Washington, D.C., April 14–15, 1993).

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interesting general questions: Why do some regimes undergo transitions from authoritarian rule while others do not? Are there different paths of transition? Why do some transitions occasionally result in democracy but others fall short? Why, in Africa, are transitions to democracy generally problematic?

In this article, we argue that the nature of the preexisting regime shapes the dynamics and outcomes of political transitions. Our thesis is as follows: contemporary political changes are conditioned by mechanisms of rule embedded in the ancien régime. Authoritarian leaders in power for long periods of time establish rules about who may participate in public decisions and the amount of political competition allowed. Taken together, these rules constitute a political regime. Regime type in turn influences both the likelihood that an opposition challenge will arise and the flexibility with which incumbents can respond. It also determines whether elites and masses can arrive at new rules of political interaction through negotiation, accommodation, and election, that is, whether any transition will be democratic.

We cast the argument comparatively in order to highlight differences among political regimes, initially between Africa and the rest of the world and subsequently among African countries themselves. First, we compare African transitions with those in Latin America and Southern Europe and find that transition dynamics in Africa have been distinctive. We attribute this to the neopatrimonial nature of African authoritarian regimes, which we contrast to the corporatist regimes that democratized in Southern Europe in the mid-1970s and in Latin America in the mid-1980s. Thereafter, we compare transitions within Africa. Based on the degree of political participation and contestation tolerated under the ancien régime, we distinguish several regime variants under the general rubric of neopatrimonialism and show that here, too, regime characteristics can help explain transition processes. The argument, though driven by African examples, can be generalized to neopatrimonial regimes elsewhere.

Especially for Africa, the scholarly study of political transitions has vacillated between ideographic case studies (with detailed description of events and actors) and abstract ruminations about principles of democracy supported by little systematic evidence. This article makes a modest effort to bridge the gap between these two extremes. We emphasize political institutions in a bid to develop midlevel generalizations and to help make the study of regime transitions more comparative.

The article is divided into four sections. The first section argues that the literature on political transitions has focused excessively on the contingent interactions of key political actors and underestimated the formative impact of political institutions. A second section defines neopatrimonial-

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ism as a regime type and describes its characteristic features in Africa. Third, we discuss how the features of neopatrimonialism are likely to mold transitions in patterns quite different from those observed in transitions from other regime types. A fourth section distinguishes variants of the neopatrimonial regime, which we use to explain transition dynamics and outcomes observed recently in sub-Saharan Africa. A conclusion extends the argument about the distinctiveness of transitions from neopatrimonial rule and discusses its implications.

Regime Type and Political Transition

Are there relationships between regime type and the likelihood, nature, and extent of political transition? Scholars have so far only scratched the surface in understanding political transitions in terms of the structure of the preceding regime. Karen Remmer argues that once one recognizes the "enormous range of variation concealed within the authoritarian (and democratic) categor(ies)," political outcomes vary systematically with regime type.[2] From recent Latin American experience she proposes that inclusionary democracies tend to collapse as a result of intrigue among the political elite, whereas exclusionary democracies are more likely to succumb to pressure from below. Moreover, once inclusionary regimes have held power, the reimposition of an exclusionary regime requires heavy doses of state coercion.[3] It is unclear, however, whether Remmer's generalizations apply to the demise of autocracies as well as to the breakdown of democratic rule.

Huntington's analysis of "third wave" democratic transitions in thirty-five countries finds little overall relationship between the nature of the incumbent authoritarian regime and the pattern of political transition.[4] He contends that whereas political transitions are most likely to be initiated from the top down, such dynamics are equally likely in one-party military or personalistic regimes. Nevertheless, leaders of one-party and military regimes are somewhat more likely than personal dictators to engage the opposition in a negotiated transfer of power. Indeed, personalistic regimes are more susceptible than other regime types to collapse in

[2] Remmer, "Exclusionary Democracy," *Studies in Comparative International Development* 20, no. 4 (1986), 64–68.

[3] Ibid., 77–78.

[4] Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991). Huntington classifies transitions into three main types: transformation, replacement, and transplacement. These labels are unnecessarily jargonistic; we prefer to speak of three routes—top-down, bottom-up, and negotiated political change—distinguished according to whether state elites, opposition forces, or both take the lead in pressing transition forward. On this theme, see Dankwart A. Rustow, "The Surging Tide of Democracy," *Journal of Democracy* 3, no. 1 (1992), 119–22.

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the face of a popular protest. Huntington notes that dictatorial leaders usually refuse to give up power voluntarily and try to stay in office as long as they can.[5]

The notion of an underlying structure to regime transitions runs counter to the most penetrating and influential contemporary work on this subject. Guillermo O'Donnell and Philippe Schmitter eschew the possibility of systematic causality and instead advance what can be termed a contingent approach to transitions. They argue that transitions are abnormal periods of "undetermined" political change in which "there are insufficient structural or behavioral parameters to guide and predict the outcome."[6] Compared with the orderliness of authoritarian rule, transitions are marked by unruly and chaotic struggles and by uncertainty about the nature of resultant regimes. Analysts cannot assume that the transition process is shaped by preexisting constellations of macroeconomic conditions, social classes, or political institutions. Instead, formerly cohesive social classes and political organizations tend to splinter in the heat of political combat, making it impossible to deduce alignments and actions of any protagonist. Political outcomes are driven by the short-term calculations and the immediate reactions of strategic actors to unfolding events.

There is much merit in this contingent approach, which captures well the chaotic nature of regime transitions, but we remain dissatisfied with the open-ended implication that any one transition process or outcome is just as likely as any other. The excessive voluntarism of O'Donnell and Schmitter's framework has been criticized by other commentators. Nancy Bermeo notes that "the authors' emphasis on individual actors . . . constitutes a most significant challenge to the structuralist perspectives that have dominated . . . (comparative) political science scholarship."[7] Terry Lynn Karl makes a case for what she calls structured contingency, an approach "that seeks explicitly to relate structural constraints to the shaping of contingent choice."[8] In her words:

> Even in the midst of tremendous uncertainty provoked by a regime transition, where constraints appear to be most relaxed and where a wide range of outcomes appears to be possible, the decisions made by various actors respond to and are conditioned by the types of socioeconomic structures and political institutions already present.[9]

[5] Huntington (fn. 4), 588.

[6] O'Donnell and Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986), 3. See also Guiseppe Di Palma, *To Craft Democracies: An Essay on Democratic Transitions* (Berkeley: University of California Press, 1990).

[7] Bermeo, "Rethinking Regime Change," *Comparative Politics* 22 (April 1990), 361.

[8] Karl, "Dilemmas of Democratization in Latin America," *Comparative Politics* 5 (October 1990).

[9] Ibid., 6; emphasis added.

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We agree that there are potentially fruitful avenues for research at a "meso" level between individual choice and structural determinism.[10] To date, most propositions in the transitions literature concern the effects of deep socioeconomic structures. For example, Bermeo posits that "authoritarian regimes do not seem to collapse during periods of relative prosperity";[11] Karl suggests that democratic consolidation depends on "the absence of a strong landowner elite engaged in labor-repressive agriculture."[12] Important as the condition of the economy and the formation of classes may be, we feel that these propositions focus on structures that are *too* deep. There are more proximate, political institutions—which together constitute a political regime—that are likely to have a direct bearing on transitions.

The argument that the political institutions of the preceding regime condition historical transitions is of course not novel; it runs through the historiographic literature, notably on revolutions.[13] But the recent transitions literature has not grappled with regime types, in part because the universe of relevant country cases has displayed a relatively uniform set of dominant political institutions.[14] It has tended to assume the presence of the corporatist institutions that predominated in the bureaucratic authoritarian regimes of Southern Europe and Latin America.[15] In Africa, however, political institutions have on the whole evolved within neopatrimonial rather than corporatist regimes, forcing us to assess the impact of regime type.

[10] For general theoretical discussions of this point, see Anthony Giddens, *The Constitution of Society: An Outline of the Theory of Structuration* (Cambridge, Mass.: Polity Press, 1984); and Michael Taylor, "Structure, Culture and Action in the Explanation of Social Change," *Politics and Society* 17, no. 2 (1989).

[11] Bermeo (fn. 7), 366–67.

[12] Karl (fn. 8), 6–7.

[13] This central point is made in relation to the French Revolution by Alexis de Tocqueville, *The Old Regime and the French Revolution* (Garden City, N.Y.: Doubleday, 1955); and in a comparison of the Russian and German revolutions by Barrington Moore, *Injustice: The Social Bases of Obedience and Revolt* (New York: M. E. Sharpe, 1978), 357–75, where differences in outcomes are linked to differences in the strength of political institutions.

[14] Interestingly, two recent comparative studies of regime change are based on the analysis of political institutions. Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1992); and Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992).

[15] Not all extant analyses assume corporatist institutions and ignore regime variations. See Robert M. Fishman, "Rethinking State and Regime: Southern Europe's Transition to Democracy," *World Politics* 42 (April 1990); and Terry Lynn Karl and Philippe Schmitter, "Modes of Transition in Latin America, Southern and Eastern Europe," *International Social Science Journal* 128 (May 1991). See also the interesting analyses of the role of political parties as an explanatory factor in Brazil's transition in Scott Mainwaring, "Political Parties and Democratization in Brazil and the Southern Cone," *Comparative Politics* 21 (October 1988); and idem, "Brazilian Party Underdevelopment in Comparative Perspective," *Political Science Quarterly* 107 (Winter 1992).

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Neopatrimonial Regimes

In the main, African political regimes are distinctly noncorporatist. Leaders of postcolonial African countries may have pursued a corporatist strategy to the extent that they promoted an organic ideology of national unity and attempted to direct political mobilization along controlled channels. But African leaders have rarely used bureaucratic formulas to construct authoritative institutions or granted subsidiary spheres of influence to occupational interest groups within civil society. Contemporary African regimes do not display the formal governing coalitions between organized state and social interests or the collective bargaining over core public policies that characterize corporatism. At best, African efforts to install corporatist regimes have been a "policy output" of an ambitious political elite rather than a reflection of organized class interests within domestic society.

Rather, the distinctive institutional hallmark of African regimes is neopatrimonialism. In neopatrimonial regimes, the chief executive maintains authority through personal patronage, rather than through ideology or law. As with classic patrimonialism, the right to rule is ascribed to a person rather than an office.[16] In contemporary neopatrimonialism, relationships of loyalty and dependence pervade a formal political and administrative system[17] and leaders occupy bureaucratic offices less to perform public service than to acquire personal wealth and status. The distinction between private and public interests is purposely blurred. The essence of neopatrimonialism is the award by public officials of personal favors, both within the state (notably public sector jobs) and in society (for instance, licenses, contracts, and projects). In return for material rewards, clients mobilize political support and refer all decisions upward as a mark of deference to patrons.[18]

Insofar as personalized exchanges and political scandals are common in all regimes, theorists have suggested that neopatrimonialism is a master concept for comparative politics. Theobold argues that "some of the new states are, properly speaking, not states at all; rather, they are virtually the private instruments of those powerful enough to rule."[19] And Clapham maintains that neopatrimonialism is "the most salient type (of authority)"

[16] Max Weber, *Economy and Society* (New York: Bedminster Press, 1968). See also Robin Theobold, "Patrimonialism," *World Politics* 34 (July 1982).

[17] Samuel N. Eisenstadt, *Traditional Patrimonialism and Modern Neopatrimonialism* (London: Sage, 1972); Christopher Clapham, ed., *Private Patronage and Public Power* (London: Frances Pinter, 1985); and Richard Snyder, "Explaining Transitions from Neopatrimonial Dictatorships," *Comparative Politics* 24, no. 4 (1992).

[18] See Richard Joseph, *Democracy and Prebendal Politics in Nigeria: The Rise and Fall of the Second Republic* (New York: Cambridge University Press, 1987), esp. chap. 5. On the recent evolution of these phenomena, see the excellent analysis in René Lemarchand, "The State, the Parallel Economy, and the Changing Structure of Patronage Systems," in Donald Rothchild and Naomi Chazan, eds., *The Precarious Balance: State and Society in Africa* (Boulder, Colo.: Westview Press, 1988).

[19] Theobold (fn. 16), 549.

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in the Third World because it "corresponds to the normal forms of social organization in precolonial societies."[20]

We draw a finer distinction, namely, that while neopatrimonial practice can be found in all polities, it is the *core* feature of politics in Africa and in a small number of other states, including Haiti, the Philippines, and Indonesia. Thus, personal relationships are a factor at the margins of all bureaucratic systems, but in Africa they constitute the foundation and superstructure of political institutions. The interaction between the "big man" and his extended retinue *defines* African politics, from the highest reaches of the presidential palace to the humblest village assembly. As such, analysts of African politics have embraced the neopatrimonial model.[21]

Neopatrimonialism has important implications for the analysis of political transitions. On the one hand, one would expect transitions from neopatrimonial rule to be distinctive, for example, centering on struggles over the legitimacy of the discretionary decision making by dominant, personalistic leaders. On the other hand, one would also expect the dynamics of political change to be highly variable, unpredictably reflecting idiosyncratic patterns of rule devised by strongmen. Hence the need to emphasize both the commonalities *and* variations in transition dynamics and outcomes. Bearing this in mind, let us now turn to our central questions: how does neopatrimonialism influence whether transitions ever begin, how they unfold, and how they turn out?

Comparing Regimes and Transitions

The recent literature on democratization in Europe and Latin America[22] converges on a modal path of political transition. The transition begins when a moderate faction within the state elite recognizes that social peace and economic development alone cannot legitimate an authoritarian regime. These soft-liners promote a political opening by providing

[20] Christopher Clapham, *Third World Politics: An Introduction* (Madison: University of Wisconsin Press, 1985), 49.

[21] John Waterbury, "Endemic and Planned Corruption in a Monarchical Regime," *World Politics* 25 (July 1973); Robert H. Jackson and Carl G. Rosberg, *Personal Rule in Black Africa* (Berkeley: University of California Press, 1982); Thomas Callaghy, *The State-Society Struggle: Zaire in Comparative Perspective* (New York: Columbia University Press, 1984); Richard Sandbrook, *The Politics of African Economic Stagnation* (New York: Cambridge University Press, 1986); Joseph (fn. 18); Jean François Bayart, *L'Etat au Cameroun* (Paris: Presses de la Fondation Nationale de Sciences Politiques, 1985); and idem, *L'Etat en Afrique* (Paris: Fayard, 1989).

[22] In addition to works already cited, see Enrique A. Baloyra, ed., *Comparing New Democracies: Transitions and Consolidation in Mediterranean Europe and the Southern Cone* (Boulder, Colo.: Westview Press, 1987); James M. Malloy and Mitchell A. Seligson, eds., *Authoritarians and Democrats: Regime Transitions in Latin America* (Pittsburgh, Pa.: University of Pittsburgh Press, 1987); Robert A. Pastor, ed., *Democracy in the Americas: Stopping the Pendulum* (New York: Holmes and Meier, 1989); Karen L. Remmer, "New Wine or Old Bottlenecks? The Study of Latin American Democracy," *Comparative Politics* 23 (July 1991).

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improved guarantees of civil and political rights and later conceding the convocation of free and fair elections. The greatest threat to democratic transition comes from a backlash by elements of a hard-line faction, most commonly when the military executes a reactionary coup. To forestall hard-liners and complete the transition, government and opposition leaders meet behind the scenes to forge a compromise "pact" to guarantee the vital interests of major elite players.

We propose that political transitions in neopatrimonial regimes depart from this modal path in the following major respects:

1. *Political transitions from neopatrimonial regimes originate in social protest.* As is well known, the practices of neopatrimonialism cause chronic fiscal crisis and make economic growth highly problematic.[23] In addition, neopatrimonial leaders construct particularistic networks of personal loyalty that grant undue favor to selected kinship, ethnic, or regional groupings. Taken together, shrinking economic opportunities and exclusionary patterns of reward are a recipe for social unrest. Mass popular protest is likely to break out, usually over the issue of declining living standards, and to escalate to calls for the removal of incumbent leaders. Unlike corporatist rulers, personal rulers cannot point to a record of stability and prosperity to legitimate their rule.

Endemic fiscal crisis also undercuts the capacity of rulers to manage the process of political change. When public resources dwindle to the point where the incumbent government can no longer pay civil servants, the latter join the antiregime protesters in the streets.[24] Shorn of the ability to maintain political stability through the distribution of material rewards, neopatrimonial leaders resort erratically to coercion which, in turn, further undermines the regime's legitimacy. The showdown occurs when the government is unable to pay the military.

Przeworski has argued that the stability of any regime depends not so much on the legitimacy of a particular system of domination as on the presence of a preferred opposition alternative.[25] It may be true that a powerful autocrat can coerce unwilling popular compliance over very long periods of time if he retains control over the executive and military bureaucracies. But regimes built on personal loyalty rather than bureaucratic authority are susceptible to institutional collapse when patronage resources run

[23] See Sandbrook (fn. 21); and Callaghy (fn. 21).

[24] Thus, Allen argues that "in failing to pay salaries [the Kerekou regime in Benin] . . . signed the death warrant it had drafted by its own gross corruption, for it led to the actions of 1989 that in turn caused the regime's collapse." See Christopher Allen, "Restructuring an Authoritarian State: Democratic Renewal in Benin," *Review of African Political Economy* 54 (July 1992), 46.

[25] Adam Przeworski, "Some Problems in the Study of the Transition to Democracy," in Guillermo O'Donnell, Philippe Schmitter, and Laurence Whitehead, eds., *Transitions from Authoritarian Rule: Comparative Perspectives* (Baltimore: Johns Hopkins University Press, 1986), 51.

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out. In these cases, a crisis of legitimacy may be a sufficient condition to undermine or topple a regime, and there need not yet be an organized opposition offering a programmatic alternative.

As a result of twin political and economic crises, political transitions are more likely to originate in society than in the corridors of elite power. The existing literature is inconsistent on this point. O'Donnell and Schmitter assert that "there is no transition whose beginning is not the consequence—direct or indirect—of important divisions within the authoritarian regime itself."[26] Yet the same authors note that authoritarian rulers usually miss opportunities to open up when the regime is riding a wave of economic success and that instead they "attempt liberalization only when they are already going through some serious crisis."[27] We read this as implying that political liberalization is an elite *response* rather than an elite initiative. It also begs the question of how leaders apprehend the existence of a "crisis"; presumably, elites are awakened to the necessity of reform by an outpouring of popular protest.[28]

The well-known distinctions between top-down, bottom-up, and negotiated transitions are helpful here.[29] One might be tempted to predict that neopatrimonial regimes would undergo elite-initiated transitions, since personal rulers concentrate so much decision-making power in their own hands.[30] But in an earlier analysis, we found instead that transitions in Africa seem to be occurring more commonly from below. Of twenty-one cases of transition in sub-Saharan Africa between November 1989 and May 1991, the initiative to undertake political reform was taken by opposition protesters in sixteen cases and by incumbent state leaders in only five cases.[31] In general, neopatrimonial rulers are driven by calculations of personal political survival: they resist political openings for as long as possible

[26] O'Donnell and Schmitter (fn. 6), 19.

[27] Ibid., 17.

[28] Elsewhere, O'Donnell and Schmitter (fn. 6) concede that ordinary citizens commonly take a leading role in transitions: whereas "political democracies are usually brought down by conspiracies involving a few actors . . . the democratization of authoritarian regimes . . . involves . . . a crucial component of the mobilization and organization of large numbers of individuals" (p. 18).

[29] Juan Linz, "Crisis, Breakdown and Reequilibration," in Juan Linz and Alfred Stepan, eds., *The Breakdown of Democratic Regimes* (Baltimore: Johns Hopkins University Press, 1978); Samuel Huntington, "How Countries Democratize," *Political Science Quarterly* 106, no. 4 (1992); René Lemarchand, "African Transitions to Democracy: An Interim (and Mostly Pessimistic) Assessment" (Revised version of a paper presented at a seminar on Democracy and Economic Development, Oslo, February 1992).

[30] Samuel Huntington finds only six cases of transitions by "replacement," that is, from below; see Huntington (fn. 29).

[31] See Michael Bratton and Nicolas van de Walle, "Popular Protest and Political Reform in Africa," *Comparative Politics* 24 (July 1992). The five exceptions were Cape Verde, Guinea Bissau, Madagascar, Sao Tome, and Tanzania. Of these, only Cape Verde and São Tomé have completed a protest-free full transition. See also M. Cahen, "Vent des Iles: La victoire de l'opposition aux Iles du Cap Vert et à São Tomé e Príncipe," *Politique Africaine* 43 (October 1991). In Madagascar massive protests erupted in mid-1991, when it became clear that President Ratsiraka's reforms were only window dressing. The

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and seek to manage the process of transition only after it has been forced upon them.[32]

The structure of political incentives in neopatrimonial regimes helps to explain why state elites rarely initiate political transitions. When rule is built on personal loyalty, supreme leaders often lose touch with popular perceptions of regime legitimacy. They lack institutional ties to corporate groups in society that could alert them to the strength of their popular support. Instead, they surround themselves with sycophantic lieutenants who protect their own positions by telling the leader what he wants to hear and by shielding him from dissonant facts. Thus, even skillful personalistic leaders lack a flow of reliable information on which to base sound judgments about the need for, and timing of, political liberalization. Instead, they react to popular discontent by falling back on tried-and-true methods of selective reward and political repression. To make themselves heard—to penetrate the conspiracy of silence surrounding the supremo—ordinary citizens therefore have little choice but to persist with protest and raise the volume of their demands.

Ironically, neopatrimonial rule also undercuts civil society, thus weakening the foundation for antisystemic change. Because personal rulers are sensitive to threats to their authority, they set about weakening all independent centers of power. Migdal shows how fear of rivals drives dictators to emasculate the very state institutions that could institutionalize their rule.[33] The same irrational logic of political survival informs the attitudes of personal rulers toward the institutions of civil society. Most African leaders have demobilized voters and eradicated popular associations except those headed by hand-picked loyalists. Therefore, when political protest does erupt in neopatrimonial regimes, it is usually spontaneous, sporadic, disorganized, and unsustained. Because civil society is underdeveloped, the completion of the transition and the consolidation of any subsequent democratic regime are problematic.

2. *Neopatrimonial elites fracture over access to patronage.* By arguing for popular agency, we are not stating that elite factionalism is unimportant in African political transitions. But we side with the view that "political struggle . . . begins as the result of the emergence of a new elite that arouses a

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elections of February 1993, which brought the opposition to power, were clearly the result of popular pressures. See "Madagascar: Hanging on in the Face of Change," *Africa Confidential*, September 1991, p. 7. Finally, in Tanzania and Guinea Bissau, political liberalization has fallen well short of a full transition.

[32] African states with particularly acute fiscal crises were also vulnerable to donor pressures to engage in political liberalization. See Bratton and van de Walle (fn. 31) for a discussion of the relative role of domestic and international factors in recent African transitions.

[33] Joel S. Migdal, *Strong Societies and Weak States* (Princeton: Princeton University Press, 1988), chap. 6.

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depressed and previously leaderless social group into concerted action"[34] rather than with "a move by some group within the ruling bloc to obtain support from forces external to it."[35] At issue is whether the leadership of the reform coalition comes from inside or outside the incumbent group. We favor the latter interpretation.

At face value, one would expect elite cohesion to be particularly problematic in governing coalitions built on the quicksand of clientelism. But the dimensions of elite factionalism are distinctive in personalistic regimes.[36] The conventional distinction between hard-liners and soft-liners does not capture the essential fault line within a neopatrimonial elite.[37] Instead of fracturing ideologically over whether or not to liberalize, neopatrimonial elites are more likely to take sides on pragmatic grounds in struggles over spoils. Their political positions come to be defined according to whether they are insiders or outsiders in relation to the patronage system.

Fragmentation occurs as follows. Neopatrimonial regimes are characterized by rapid turnover of political personnel. To regulate and control rent seeking, to prevent rivals from developing their own power base, and to demonstrate their own power, rulers regularly rotate officeholders.[38] Moreover, few rulers tolerate dissent; they typically expel potential opponents from government jobs, from approved institutions like ruling parties, or even from the country itself. Even if most individuals can expect eventually to be forgiven and brought back into the fold, such practices establish a zero-sum, nonaccommodative pattern of politics. Whereas insiders enjoy preferential access to state offices and associated spoils, outsiders are left to languish in the wilderness. The more complete their exclusion from economic opportunity and political expression, the more strongly outsiders are motivated to oppose the incumbent regime. Outsiders take refuge from official institutions in civil society, the parallel economy, or international exile. From these locations, they mount a campaign against the incumbent regime that attributes economic decline to the personal failings of the supreme ruler and his coterie. These oppo-

[34] Dankwart Rustow, "Transitions to Democracy: Toward a Dynamic Model," *Comparative Politics* 2 (April 1970), 352.

[35] Przeworski (fn. 25), 56.

[36] A large literature analyzes factional conflict within the African state elite; see, for example, Sandbrook (fn. 21); and Bayart (fn. 21).

[37] In Huntington's work (fn. 29), for example, the success of democratization hinges largely on the ability of "liberal reformers" within the government to outmaneuver the standpatters.

[38] As Waterbury (fn. 21) argues with respect to the monarchy in Morocco, "The king's degree of political control varies directly with the level of fragmentation and factionalization within the system. . . .The king must always maintain the initiative through the systematic inculcation of an atmosphere of unpredictability and provisionality among all elites and the maximization of their vulnerability relative to his mastery" (p. 552).

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nents grasp for control of popular protest movements, usually by promoting symbols (such as multiparty democracy) that can convert economic grievances into demands for regime change.

Meanwhile, the insiders in a patrimonial ruling coalition are unlikely to promote political reform. Stultified by years of obeisance to the official party line, they have exhausted their own capacity for innovation. Recruited and sustained with material inducements, lacking an independent political base, and thoroughly compromised by corruption, they are dependent on the survival of the incumbent regime. Insiders typically have risen through the ranks of political service and, apart from top leaders who may have invested in private capital holdings, derive their livelihood from state or party offices. Because they face the prospect of losing all visible means of support in a political transition, they have little option but to cling to the regime and to sink or swim with it.

Even if the state elite does begin to fragment over the pace of political reform, such splits are governed more by considerations of self-interest than of ideology. As patronage resources dwindle, incumbent leaders try to tighten their grip on revenues (especially export returns and foreign aid) in order to reward the loyalty of remaining insiders and to attempt to buy back the outsiders.[39] At some point during the transition, waverers may calculate that their access to rents and prebends is best served by crossing over to the opposition.

Thus, the operations of neopatrimonialism tend to create simultaneously a defensively cohesive state elite and a potential pool of alternative leaders outside of the state. The neopatrimonial practice of expelling rather than accommodating dissenters is a primary cause of the emergence of organized opposition. For this reason we stress the cleavage between insiders and outsiders rather than the divide within the ruling clique between hard-liners and soft-liners. Given the weakness of civic associations and the repression of opposition organizations, it is striking how commonly opposition in Africa today is led by former insiders who have fallen out of official favor.

3. *Elite political pacts are unlikely in neopatrimonial regimes.* Pacts are "more or less enduring compromises . . . (in which) no social or political group is sufficiently dominant to impose its ideal project, and what typically emerges is a second-best solution."[40] They figure prominently in the literature because of their role in the transitions of countries like Spain,[41]

[39] Nicolas van de Walle, "Neopatrimonialism and Democracy in Africa, with an Illustration from Cameroon," in Jennifer Widner, ed., *Economic Change and Political Liberalization in Sub-Saharan Africa* (Baltimore: Johns Hopkins University Press, 1994).

[40] O'Donnell and Schmitter (fn. 6), 38.

[41] Raymond Carr and Juan Pablo Fusi Aizpurua, *Spain: Dictatorship to Democracy* (London: Allen and Unwin, 1979).

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Brazil,[42] and Venezuela.[43]

Some conditions conducive to pact making, such as the inability of any single political actor to impose a preferred outcome, are present in the late stages of neopatrimonial rule. But other conditions are absent. First, incumbent and opposition leaders are usually so polarized as a result of winner-take-all power struggles that there is slim possibility that moderate factions from either side can negotiate an agreement. Instead, transitions unfold along a path of escalating confrontations until one side or other loses decisively. To the extent that transitions occur without setting a precedent for compromise, the chances are reduced that any resultant democratic regime can be sustained and consolidated.

In addition, the likelihood of pacts is a function of the degree of formal political institutionalization in a regime. In corporatist regimes the parties to a political pact are the acknowledged leaders of major interest blocs within state and society; by carrying their supporters along, they can make agreements stick. In neopatrimonial regimes political leaders may represent no more than a tiny coterie of clients and may be unable to build a political consensus around any intraelite agreement. The emerging political parties and civic organizations typically lack traditions, experience, and funds, and find it difficult to escape factionalism.[44] As a result, contending opposition leaders within a pluralistic social movement do not usually have the authenticity and legitimacy to strike a deal on behalf of all dissident factions. Pacts are only likely where well-developed institutions—for example, the military on the government side or political parties on the opposition side—present cohesive bargaining positions and demonstrate credible political clout. In other words, pacts tend to form after leaders build institutions that replace the shifting alliances of convenience that characterize neopatrimonial regimes.

Under neopatrimonialism, the prospect of political compromise depends more on the personality, management skills, and governing institutions of the incumbent ruler. A leader who has attempted to legitimate a personalistic regime with populistic rhetoric—for example, of "peoples'" democracy or "African" socialism—is more likely to respond positively to demands for political liberalization than is a leader who has ruled on the basis of claims of traditional paternalism or revolutionary purity. A leader who has allowed political rivals to live freely within the country is more

[42] Frances Hagopian, "Democracy by Undemocratic Means? Elites, Political Pacts and Regime Transition in Brazil," *Comparative Political Studies* 23, no. 2 (1990).

[43] Terry Lynn Karl, *Petroleum and Political Pacts: The Transition to Democracy in Venezuela*, Latin America no. 107 (Washington, D.C.: Wilson Center, 1981).

[44] Thus, by 1991, some 76 parties had been officially recognized in Cameroon, 42 in Guinea, 27 in Gabon, and allegedly over 200 in Zaire. In these countries, as well as in the Ivory Coast , the opposition's credibility and strength has been undermined by internal divisions, ethnic rivalries, and personal disputes. See Yves A. Fauré, "Nouvelle donne en Côte d'Ivoire," *Politique Africaine* 20 (December 1985).

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likely to strike a deal on the rules of transition than is a leader who has systematically eliminated opponents. But we contend that neopatrimonial practice reduces the possibility of the "grand" compromise of power sharing. Rather, a common condition of political transition is that the strongman and his entourage have to go.

4. *In neopatrimonial regimes, political transitions are struggles to establish legal rules.* As struggles over the rules of the political game, political transitions determine the future constellation of winners and losers in the socioeconomic realm. Here, too, regime type shapes the status of rules and the nature of rule-making conflicts. Corporatist regimes elsewhere in the world may have been installed by extraconstitutional means and may have suspended constitutional rights. But to the extent that corporatist rule is bureaucratic, it is rule governed and elites and masses are acculturated to an orderly rule of law.

But because personalistic leaders enjoy sweeping discretion in making public decisions, political transitions in neopatrimonial regimes are concerned fundamentally with whether rules even matter.[45] The opposition leadership, which commonly includes lawyers within its ranks,[46] calls for a rule of law. Indeed, the law, in its different national and international manifestations, is one of the more potent weapons the opposition has at its disposal. In an effort to establish the primacy of legal rules, it challenges the regime to lift emergency regulations, allow registration of opposition parties, hold a sovereign national conference, limit the constitutional powers of the executive, or hold competitive elections. At some moment in the struggle, the contents of the constitution and the electoral laws become key points of contention. In other words, the opposition attempts to reintroduce rule-governed behavior after a prolonged period in which such niceties have been suspended.

Part of the opposition's objective in establishing legal rules is to gain access to resources monopolized by the ruling clique. In the context of a democratic transition, the opposition is most immediately interested in the regime's control of the media and other electoral campaign assets. In the longer run, business interests in the opposition may be keen to alter the rules of government intervention in the economy permanently. At this point, internal conflicts may emerge within the opposition over the extent

[45] Confronted by a journalist on national television with evidence that the government had disregarded its own laws in the manipulation of voter lists on the eve of the legislative elections of March 1992, the Cameroonian minister of territorial administration explained that "laws are made by men, and are no more than reference points." Cited in Célestin Monga, "La recomposition du marché politique au Cameroun (1991–1992)" (Unpublished paper, GERDES, Cameroon, 1992), 10.

[46] The national bar associations played leading opposition roles in Cameroon, Mali, the Central African Republic, and Togo. See Paul John Marc Tedga, *Ouverture démocratique en Afrique Noire?* (Paris: L'Harmattan, 1991), 64–72.

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of regime transition, with old-guard politicians seeking to limit rule changes and thereby ensure that they can benefit from state patronage once they capture state power. Thus, the struggle over political rules is often a pretext or a prelude to even more fundamental economic struggles that are laid bare in efforts to strip neopatrimonial rulers of their power.

5. *During transitions from neopatrimonial regimes, middle-class elements align with the opposition.* Struggles over the status of property rights reveal the deeper structure of a regime's social base. The relationship between state and capital in Latin America and Southern Europe is very different from that in African countries. Corporatist regimes promote accumulation through "triple alliances" with foreign and national private capital, and they draw domestic political support from the expanding entrepreneurial middle classes.[47] This structure of political support has maintained or deepened great inequalities of wealth and income, which in turn limit the options for transition. Under capitalism, democracies can be installed gradually only if the distribution of assets is not to be disrupted; if they occur by a popular upsurge, a rapid transition, and the introduction of redistributive policies, right-wing forces may be prompted to intervene to reverse the transition. Some analysts argue that in order to achieve a stable democracy, the Right must do well in a founding election and the Left must accept the inviolability of the bourgeoisie's property rights.[48]

Because neopatrimonial regimes are embedded in precapitalist societies, one would expect a different transition scenario in Africa. The pervasiveness of clientelism means that the state has actively undermined capitalist forms of accumulation. Property rights are imperfectly respected and there are powerful disincentives against private entrepreneurship and long-term productive investments. Unlike in Latin America, governing alliances between military rulers and national bourgeoisies are uncommon. Instead, the weak national bourgeoisies of Africa are frustrated by state ownership, overregulation, and official corruption. Rather than regarding the incumbent regime as the protector of property rights, private capital opposes the use of the state machinery by a bureaucratic bourgeoisie to appropriate property for itself. Thus, instead of demanding that property rights be ruled out of bounds, would-be capitalists want to use a transition from neopatrimonialism as an opportunity to include them in the new rules of the political game.

This explains the tendency of emergent middle classes in Africa to side with the democratic opposition rather than to uphold the incumbent gov-

[47] Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (Princeton: Princeton University Press, 1979); David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979).

[48] O'Donnell and Schmitter (fn. 6), 62, 69. For a critique of these arguments, see Daniel H. Levine, "Paradigm Lost: Dependence to Democracy," *World Politics* 40 (April 1988).

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ernment. Businessmen and professionals often take on political leadership roles in the opposition, drawing in other middle-class groups, like public servants, whose downward economic mobility is a powerful impetus to forge an alternative ruling coalition. These elements are unlikely to pose a threat to the acceptance of a new government established by a founding election, not only because any new government is likely to be more economically liberal than its predecessor but also because bourgeois elements are unlikely to turn to military officers in a quest to reverse democratization. In transitions from neopatrimonial rule, the threat of backlash comes mainly from the military acting alone, with the emergent middle classes being the strongest and most articulate advocates of civilian politics.

Variations in Neopatrimonial Transitions in Africa

The unifying theme of this paper is the concept of neopatrimonial rule. So far, we have defined the concept and explored its general implications for the dynamics of political transitions. Yet the variety of transition trajectories—occasionally democratic but more commonly blocked or flawed—that unfolded in Africa between 1989 and 1993 demands further explanation. Hence, recognizing that not all African leaders govern in identical ways, we now explore variations on the theme of neopatrimonial rule. Meaningful variants exist within the general type of African regime. These differences are due in part to the proclivities of individual leaders but, more importantly, to institutional structures that have evolved historically in response to political crises and needs.

First, regime variation can be traced to the political dynamics of the immediate postindependence years.[49] The circumstances in which different leaders consolidated power partly determines the degree of pluralism that came to characterize the existing regime. When a dominant party emerged early during the period of competitive party politics at independence, that party was typically able to integrate, co-opt, or eliminate other political parties and to install stable civilian single-party rule, at least until the first leader retired.[50] In the absence of a dominant party, ensuing regimes have been characterized by instability and a greater reliance on coercion, notably through military intervention.[51]

[49] Ruth Berins Collier, *Regimes in Tropical Africa* (Berkeley: University of California Press, 1982).

[50] Numerous studies have chronicled and analyzed this process. The locus classicus remains Aristide Zolberg, *Creating Political Order: The Party States of West Africa* (Chicago: University of Chicago Press, 1966). But see also Henry Bienen, *Tanzania: Party Transformation and Economic Development* (Princeton: Princeton University Press, 1967); and William Foltz, "Political Opposition in Single-Party States of Tropical Africa," in Robert Dahl, ed., *Regimes and Opposition* (New Haven: Yale University Press, 1973).

[51] Henry Bienen, *Armies and Parties in Africa* (New York: Africana Publishing, 1979); Samuel Decalo, "The Morphology of Military Rule in Africa," in John Markakis and Michael Waller, eds.,

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Partly overlapping this first set of factors, distinct variants of neopatrimonial regimes emerged as a result of specific historical attempts to overcome tensions created by ethnic, linguistic, and regional heterogeneity. Very few regimes in Africa adopted a discourse of exclusivity;[52] the preference instead was to expend resources to promote cultural assimilation and a sense of nationhood.[53] Some leaders extended material inducements and social concessions to promote stability through various kinds of intraelite accommodation, arrangements that have resulted in relatively high levels of elite participation.[54] Governments have agreed to ethnic, communal, or regional quotas for official positions and rent-seeking opportunities, and traditional chiefs have been allowed to retain at least limited authority over their domains. Other regimes have pursued approaches that rely more extensively on a mixture of ideology, coercion, and strong limits to pluralism to maintain national unity and political stability. This has often been the case for radical military regimes, such as Ethiopia under Mengistu or Burkina Faso under Sankara, where state leaders have sought to rely less on material inducements or to place strict limits on beneficiaries.[55]

Various typologies of African regimes have been advanced in the recent literature to capture such institutional differences.[56] Following Dahl's classic formulation,[57] we find it is useful to distinguish the neopatrimonial regimes in sub-Saharan Africa according to two distinct dimensions: the extent of competition (or contestation) and the degree of political participation (or inclusion).

First, African regimes have varied in the extent to which members of the political system are allowed to compete over elected positions or public pol-

Military Marxist Regimes in Africa (London: Frank Cass, 1976); and idem, *Coups and Army Rule in Africa* (New Haven: Yale University Press, 1976).

[52] The exceptions include South Africa, of course, but also arguably present-day Sudan and Mauritania, where Arab/Islamic regimes are increasingly excluding non-Arab/non-Muslim segments of the population.

[53] See, for example, Crawford Young, *The Politics of Cultural Pluralism* (Madison: University of Wisconsin Press, 1976), esp. chap. 3.

[54] Bayart (fn. 21, 1989). See also Donald Rothchild and Victor Olorunsola, eds., *State versus Ethnic Claims: African Policy Dilemmas* (Boulder, Colo.: Westview Press, 1983).

[55] On Ethiopia, see Christopher Clapham, "State, Society and Political Institutions in Revolutionary Ethiopia," in James Manor, ed., *Rethinking Third World Politics* (New York: Longman, 1991). On Burkina Faso, see René Otayek, "The Revolutionary Process in Burkina Faso," in Markakis and Waller (fn. 51), 95–96.

[56] For a proposal of seven regime types based loosely on seven diverse criteria, see Naomi Chazan et al., *Politics and Society in Contemporary Africa* (Boulder, Colo.: Lynne Rienner, 1988). For competing typologies, see also Crawford Young, *Ideology and Development in Africa* (New Haven: Yale University Press, 1982); Roger Charlton, "Dehomogenizing the Study of African Politics: The Case of Interstate Influence on Regime Formation and Change," *Plural Societies* 14, no. 1–2 (1983); and Dirk Berg-Schlosser, "African Political Systems: Typology and Performance," *Comparative Political Studies* 17, no. 1 (1984).

[57] Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971).

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icy. Even when state elites have worked to eliminate, control, or co-opt opposition parties, they have sometimes tolerated pluralism within the single party or lobbying activities of nonstate associations. At one extreme, opposition parties have formed and even been allowed into the legislature in a small number of countries. At the other extreme, some regimes have banned any contestation of the policies formulated by an inner group of politicians. In between, islands of contestation have been tolerated, either independently of the state or formally under the authority of the ruling party.

Second, African regimes have varied in the degree of political participation allowed, most obviously, through the timing and frequency of legislative and executive elections. Postcolonial African regimes that have held elections have rarely limited the franchise. In contrast to the historical record in Europe or Latin America, women in Africa have generally enjoyed the same formal political rights as men. Nor have African states instituted literacy, property, or income requirements for the right to vote. Nonetheless, decision making in public affairs in African regimes is typically restricted to elites with a narrow social base. Only rarely is the population at large consulted in policy-making, and then through a single party or approved membership associations such as farmer cooperatives or trade unions.

Competition and participation may vary independently of each other. We use these two dimensions to construct a schema of political regimes in Africa, as presented in Figure 1. The axes of the figure depict the extent to which a regime is competitive (along a scale from authoritarianism to democracy) and participatory (along a scale from exclusiveness to inclusiveness). By using the Dahlian dimensions, we endeavor to ensure consistency with existing theoretical literature and comparability across world regions. At the four corners of the table lie four ideal regime categories, for which we adopt Remmer's conceptual terminology: exclusionary authoritarianism, inclusionary authoritarianism, exclusionary democracy, and inclusionary democracy.[58]

Actual regimes occupy real-world locations within the space bounded by the idealized extremes. The specific coordinates of actual regimes derive from the extent to which they are more or less competitive and participatory. While transition from exclusionary authoritarianism involves changes along both dimensions, democratization is essentially a process of securing increased opportunities for political competition. Hence we draw finer distinctions along this dimension. We thus derive six regime variants for Africa.

[58] Remmer (fn. 2).

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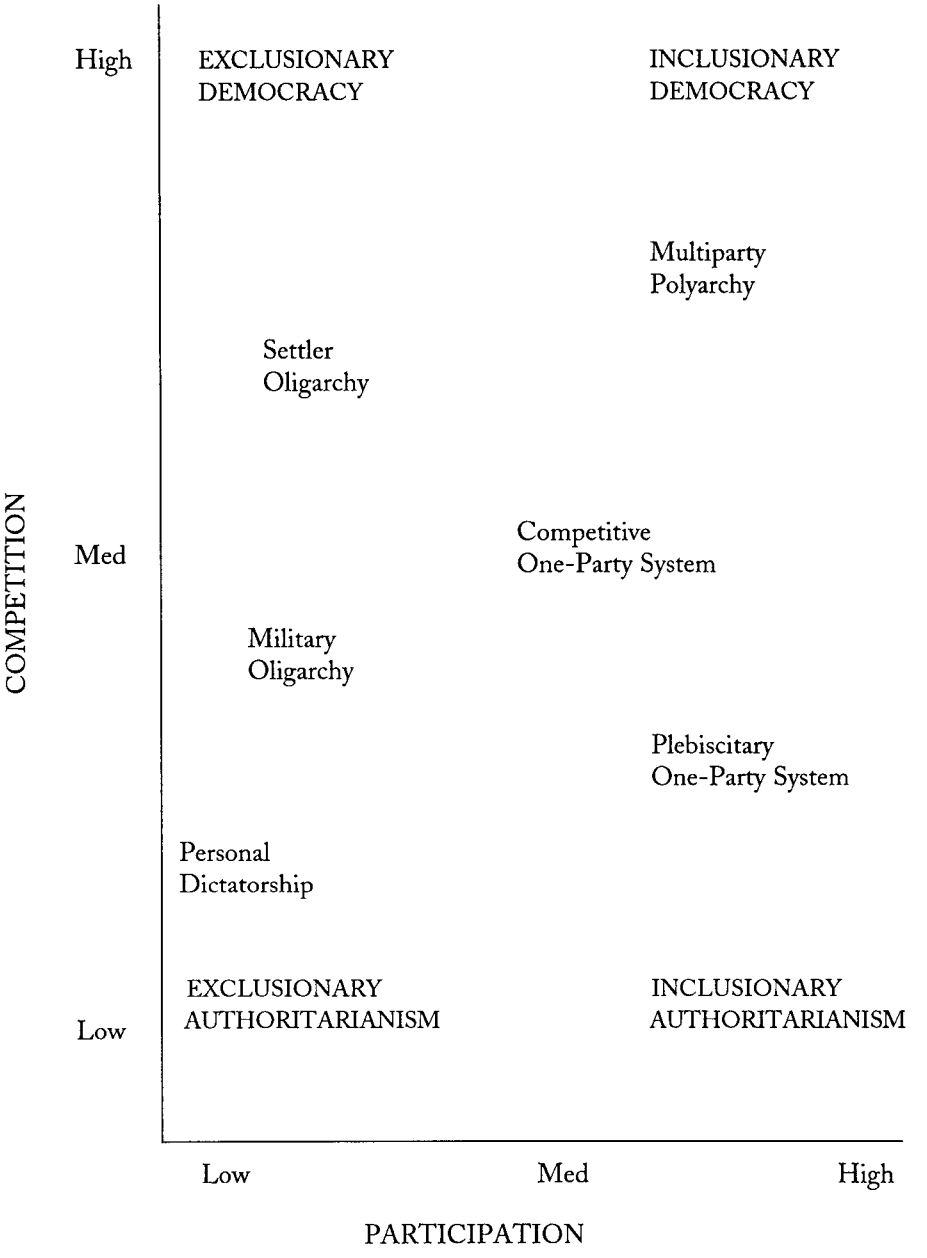

FIGURE 1

REGIME VARIANTS IN AFRICA

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Four of these regime variants are consistent with personal rule and can be regarded as varieties of neopatrimonialism: personal dictatorship, military oligarchy, and plebiscitary and competitive one-party systems.[59] They are distinguished by whether the strongman's following is broadly or narrowly mobilized (participation) and by the plurality of political association within governing institutions (competition). When the supremo "subcontracts" executive functions to subordinate barons, power is divided and decisions are made only after some degree of competition and bargaining has occurred among the powerful. But because these barons recruit clients and operate state agencies as personal fiefdoms, they tend to reproduce varieties of neopatrimonialism rather than another genus of regime. Although party and military organizations may have been built to buttress a regime, these structures have not been institutionalized to the extent that they inhibit a strong leader from taking personal control of decision making.

We wish to stress that the proposed regime variants are neither rigid nor immutable. Actual African regimes reflect their own peculiar histories, which even during the postcolonial period may encompass shifts from one regime variant to another. In part as a result of these changes, actual regimes may display characteristics of more than one variant, with combinations of personal dictatorship with military or single-party structures being quite common. In fact, this possibility is inherent in the logic of our framework, which proposes neopatrimonial rule as a master concept that embraces a variety of subsidiary regime variants. But even if a given regime at a particular time is not a perfect exemplar of one of the variants in our model, it can usually be categorized roughly for analytic purposes (see Figure 2).

The remaining regime variants found in Africa are settler oligarchy and multiparty polyarchy. Since they are not neopatrimonial regimes, we limit our discussion to a few comments.

Multiparty polyarchies display relatively high levels of both participation and competition and have already completed a democratic political transition.[60] A plurality of political parties contest open elections and voters enjoy guarantees of a universal franchise and equality before the law. African regimes that have sustained this type of regime for at least a decade include Botswana, Gambia, Mauritius, Senegal, and Zimbabwe. Each of these

[59] These categories and labels build on existing typologies. Ruth Collier distinguishes military, multiparty, and two types of one-party regime: plebiscitary and competitive. Huntington identifies four regime types: personal, one-party, and military regimes, plus the special category of racial oligarchy for South Africa.

[60] Dahl (fn. 57) labeled regimes that had been "highly popularized and liberalized" as polyarchies rather than democracies because, he argued, no large system in the real world is fully democratized (p. 8).

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Personal dictatorships	Zaire, Malawi, Equatorial Guinea, Somalia, Djibouti, Swaziland, Guinea[b]
Military oligarchies	Nigeria, Ghana, CAR, Uganda, Sudan, Mauritania, Burkina Faso, Chad, Mali, Burundi, Rwanda, Ethiopia, Liberia, Niger, Comoros, Lesotho
Plebiscitary one-party systems	Gabon, Togo, Congo, Benin, Madagascar, Guinea-Bissau, Cameroon[b]
Competitive one-party systems	Tanzania, Kenya, Zambia, Ivory Coast, Sierra Leone, Cape Verde, São Tomé, Seychelles
Settler oligarchies	South Africa, Namibia
Multiparty polyarchies	Botswana, Gambia, Mauritius, Senegal, Zimbabwe

FIGURE 2

AFRICAN COUNTRIES BY REGIME VARIANT

(IN 1989)[a]

[a] That is, before the emergence of recent democracy protests.

[b] All countries have particular histories that cannot be neatly encapsulated within static analytic categories. In the figure above, African countries that experienced regime changes in the postcolonial period were categorized according to the regime variant that prevailed for the longest interval and that therefore had the most formative influence on the structure of political institutions. For example, whereas Guinea may have become a military oligarchy by 1989, it had been a personal dictatorship for the previous three decades. And whereas President Biya officially introduced a measure of political competition within the ruling RPDC in 1985, Cameroon had formerly displayed—and in important part still displays—the institutional attributes of a plebiscitary regime. In some countries, notably Angola and Mozambique, internal war since independence has precluded the consolidation of any clear regime variant.

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regimes could be further democratized by curtailing intimidation of opposition supporters (Zimbabwe), guaranteeing the neutrality of electoral officials (Senegal), or strengthening opposition parties to enable an electoral change of government (Gambia, Botswana). While these regimes are imperfectly democratic, personal power is significantly checked by formal-legal rules, leadership turnover, and a measure of objectivity in decision making.

Settler oligarchies approximate exclusionary democracy. This form of bureaucratic regime is found in places in Latin America and Africa where European settlers gained independent control of the state.[61] We consider the settler variable to be just as formative of the institutional structure of postcolonial politics as the culture of the colonizer. In these regimes the dominant racial group uses the instruments of law to deny political rights to ethnic majorities, usually through a restrictive franchise and emergency legislation. At the same time, however, because settlers permit a good degree of political competition within their own ranks, settler oligarchy, while exclusionary, is also competitive.[62] The classic contemporary case in Africa is, of course, South Africa, but at least half a dozen other African countries, mostly in the eastern and southern subcontinent, have a settler colonial heritage. Comments on the transition prospects of this regime type can be found in the conclusion.

We now examine in greater detail the characteristics of the four main neopatrimonial regime variants and predict the distinct dynamics of political transition in each case.

Personal Dictatorship

This regime variant is the quintessence of neopatrimonialism. It is highly exclusionary because the strongman rules by decree; institutions of participation exist in name only and cannot check the absolute powers of the chief executive. The regime disallows even a semblance of political competition, for example, by physically eliminating or indefinitely incarcerating opponents. The strongman may even preempt his own removal from office by declaring himself "president for life."

A personal dictator can emerge from either the army or a dominant political party but then consolidates power by weakening these formal political structures or by asserting total control over them.[63] He rules per-

[61] See Michael Bratton, "Patterns of Development and Underdevelopment: Toward a Comparison," *International Studies Quarterly* 26, no. 3 (1982); and Remmer (fn. 2), 71–76.

[62] Remmer (fn. 2) even holds that "it is possible for exclusion to be achieved even more effectively under competitive political arrangements than under authoritarian ones. Exclusionary democracy not only makes it possible to secure regime support from dominant social groups in a highly stratified society, it obviates the costs of coercion and problems of regime legitimacy that are associated with exclusionary authoritarianism" (p. 74).

[63] Writing about Mobutu's consolidation of power, Callaghy (fn. 21) speaks of the systematic "dismantlement of inherited structures, especially departicipation and depoliticization," including the

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sonally by controlling the flow of public revenues and selectively disbursing rewards to a narrow entourage of familial, ethnic, or factional clients. He takes exclusive charge of policy-making (rather than relying on technocratic planning) and implements instructions through personal emissaries (rather than formal institutions). In recent times, the archetypal personal dictators in Africa have been Idi Amin of Uganda, Bokassa of Central African Republic, and Macias Nguema of Equatorial Guinea. Of those still in power and currently confronting demands for political transition, we refer below to Mobutu Sese Seko in Zaire and Hastings Banda of Malawi (see Figure 2).

The personalization of power in these regimes has several implications for the dynamics of political transition. First, transitions are likely to be driven almost completely by forces outside of the state, either in domestic society or from the international arena. Personal rulers are unlikely to initiate political liberalization from above or relinquish power without a struggle; they have to be forced out.[64] Self-generated reform is problematic because the regime has no mechanism of competition or participation to bring alternative ideas to the surface. Power is so concentrated that the disposition of the regime is synonymous with the personal fate of the supreme ruler. Real political change is unlikely as long as the ruler remains, since he has made all the rules. Likewise, opportunity for regime change occurs only with the death, deposition, or flight of the strongman, which becomes the primary objective of the opposition throughout the transition.

For his part, the supreme leader tends to identify the sustainability of the regime with his own political survival and is likely to make major efforts to ride the wave of protest. This confusion between self and national interest is not unique to personal dictatorships, but it has more serious implications there, given the institutional realities of these regimes. Leaders in other regimes might believe themselves to be essential, but they are rudely reminded of the need to compromise by other institutions, for example, when the military and judiciary refuse to repress protest. Because personal dictators can deploy public revenues (however limited these may be) in support of personal survival, they can avoid accountability to the state's own institutions.[65]

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emasculation of parliament, the elimination of the position of prime minister, the banning of all parties and youth organizations, and the centralization of state power away from the provinces to Kinshasa (p. 171).

[64] For a similar argument, see Snyder (fn. 17).

[65] News reports in mid-1992 indicated that Zaire's national currency, printed in Germany, was being flown directly to Mobutu's luxury yacht on the Zaire River, for use as he saw fit (*Africa News*, May 24, 1992). Amidst a crumbling economy, in which the average civil servant had not been paid in months, Mobutu was still personally ensuring the support of key followers, including elements of the armed forces charged with protecting him. See also "Mobutu's Monetary Mutiny," *Africa Confidential*, February 5, 1993; and "Zaire, a Country Sliding into Chaos," *Guardian Weekly*, August 8, 1993.

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The willingness of personal dictators to step down often depends on whether they fear prosecution for their egregious abuse of state powers and privileges. They tend to cling desperately to power. Even when friendly powers promise protection from extradition demands as an inducement to accept retirement, leaders with a poor human rights record and a history of state violence may hesitate to give up the protection of office. They believe the opposition's promises to prosecute them and, recalling the ignominious exile of Marcos of the Philippines or the Shah of Iran, fear they can never be safe.

As a result, the demise of personal dictators is usually protracted and painful, with incumbents tenaciously attempting to control the transition. President Mobutu of Zaire provides perhaps the best example of this process. Although officially acceding to popular and Western pressures to democratize, he has exercised considerable guile to manipulate events and maintain effective power. He has flouted his own reforms, subverted the constitution, manipulated the electoral process, and tried to bribe, intimidate, and co-opt the opposition; he has been willing even to destroy his nation's economic and political structures.[66] Over time, the state's authority over territory and the very existence of the state as an organized body may become a fiction. The leader shrinks to little more than a local warlord who survives by controlling residual resources and retaining the loyalty of a segment of the old coercive apparatus.

Transitions in personal dictatorships are also conditioned by the weaknesses of political institutions. In the absence of institutional mechanisms for political competition, the protagonists find difficulty in reaching a compromise formula to end the regime. Because it provides few institutional channels for negotiation over rules and power sharing, personalistic rule instead gives rise to all-or-nothing power struggles. As far as participation is concerned, personal dictatorships are characterized by an absence of civic associations. Even if the crisis has generated an outpouring of social protest against the regime, there are few mass organizations capable of effectively contesting the regime. True, opposition parties, human rights organizations, and trade unions mushroom as soon as the regime's repressive capabilities weaken, but they are fragmented, impoverished, and themselves lacking traditions of participatory politics. In this context, the emergence of the church as a primary actor in the transitions reflects, as much as its own prestige and power, the scarcity of credible secular candidates to lead the opposition.[67] The absence of institutions and habits of competition and par-

[66] René Lemarchand, "Mobutu and the National Conference: The Arts of Political Survival" (Manuscript, University of Florida, 1992).

[67] See Tedga (fn. 46).

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ticipation combine virtually to eliminate the chances that a transition from personal dictatorship will end in the consolidation of a democratic order.

Plebiscitary One-Party System

This is a more inclusionary form of authoritarian regime in which a personal ruler orchestrates political rituals of mass endorsement for himself, his officeholders, and his policies. Voters are mobilized and controlled through the mechanism of one-party "plebiscites."[68] Electoral turnout rates and affirmative votes for the president typically exceed 90 percent, results that cannot be achieved by electoral fraud alone. Between elections, the regime employs a party machine to distribute patronage to a wider array of economic and regional interests than is customary in personal dictatorships. While more inclusive, plebiscitary one-party systems are nevertheless decidedly undemocratic because they preclude genuine political competition.[69] Opposition political parties are proscribed and only one candidate from the official party appears on the ballot. As rituals of ratification, plebiscites can postpone but not eradicate a legitimacy crisis.

One-party plebiscitary systems in Africa are usually headed by first-generation leaders, whether civilian or military. If civilian, the leader is usually the "grand old man" of nationalist politics who won independence in the early 1960s; if military, he commonly came to power in the first round of coups in the late 1960s or early 1970s. This latter group of leaders typically tries to civilianize and legitimize the regime by abandoning military rank and uniform and attempting to construct mass mobilizing political parties. Examples include Presidents Eyadema in Togo and Bongo in Gabon.

In these regimes, national conferences are the distinctive institution and watershed event of the transition. Patterned on both traditional village assemblies and the Estates General of the French Revolution, national conferences bring together national elites to address the country's political problems and attempt to formulate new constitutional rules. National conferences have been held in over half a dozen West and Central African states, resulting in governmental changes in Benin, Congo, and Niger, and the exertion of intense political pressure on incumbent rulers in Zaire and Togo.[70]

We argue that the characteristics of the plebiscitary one-party regime make the national conference appealing to both opposition and ruling elite. These regimes have a tradition of participation, notably within the single

[68] Collier (fn. 49), 104–8.

[69] For country examples of these practices, see Bayart (fn. 21) on the Ahidjo regime in Cameroon (pp. 141–84); and Comi M. Toulabor, *Le Togo sous Eyadema* (Paris: Karthala, 1986), on Togo.

[70] See Lemarchand (fn.29); Pearl T. Robinson, "The National Conference Phenomenon in Francophone Africa" (Paper presented at the colloquium on the Economics of Political Liberalization in Africa, Harvard University, March 6–7, 1992); and Fabien Eboussi-Boulaga, *Les conférences nationales en Afrique Noire: Une affaire à suivre* (Paris: Karthala, 1993).

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party, but much less real effective political competition. The regime has sustained a modicum of legitimacy through ritualistic plebiscitary elections that, while seriously flawed as democratic instruments, nonetheless provide the citizenry with a limited political voice.[71] The regime is attached to these rituals, which it considers politically useful. When the crisis of legitimacy erupts, it is predisposed to holding a national conference—an institution that harks back to familiar forms of direct democracy but poses little real threat to the regime. Such a forum will allow the regime to make minimal concessions, let off steam, and perhaps even end up with a show of support. Rulers believe that they can turn such events to their advantage, just as they have always done.[72]

But the plebiscitary tradition has created enough political space for the emergence of a nascent opposition, to whom the national conference also appeals for several different reasons. First, the existing rules of the political game provide considerable built-in advantages to the regime, and the opposition quickly understands that reform of those rules is a prerequisite for political change. The opposition conceives of the national conference as an impartial public forum in which to refashion more advantageous ground rules that for the first time will include provisions for genuine political competition. Second, participatory structures are strong enough that the regime is incapable of completely disregarding or repressing calls for a national conference. Unlike more competitive systems, however, they are too weak for the transition to advance without a forum such as the national conference; the opposition is too divided and inexperienced to contest elections successfully, particularly if they are carried out by the administration under the current rules. The opposition is typically composed of several dozen parties, few of which have a national appeal or program; furthermore, they are poorly organized outside of a few urban areas. As in Ivory Coast and Gabon, when the regime organized quick elections, opposition leaders know they are likely to lose an electoral contest in which the regime holds all the cards. The national conference appeals to the opposition for strategic reasons, therefore, because it is perceived as a forum that will less expose its weaknesses.

Leaders and oppositions thus proceed toward a national conference with very different expectations. The former see it as a harmless participatory ritual that will provide the regime with a much needed boost, whereas the latter see it as the first step in a democratic takeover. Such a misunder-

[71] Collier (fn. 49), 119–24. See also Aristide Zolberg, "The Structure of Political Conflict in the New States of Tropical Africa," *American Political Science Review* 62, no. 2 (1968).

[72] As Allen (fn. 24) argues in relation to the national conference in Benin: "It was conceived originally by the government as a means of discussing mainly the political and economic problems of the time . . . and of co-opting the opposition into a joint solution in which the government would retain the leading role" (p. 48).

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standing cannot last long, and the critical point comes when the national conference demands full sovereign power. The regime resists, recognizing that real political competition would pose grave dangers to its hold on power. The ultimate outcome, which for these transitions is hard to predict, then depends on the relative strengths of the parties: strong leaders like Biya or Eyadema were able to avoid the conference or limit its impact; more desperate leaders like Kerekou and Sassou Nguesso gave in, convincing themselves it had become the best alternative.

Although the national conference is a logical extension of the institutional configuration of plebiscitary regimes, it is important to note that contingent forces do influence whether or not they occur. In particular, specific leaders have learned from the transition experiences in neighboring countries. Initially, leaders in Benin and Congo quickly agreed to national conferences in the belief that their regime would survive largely unscathed. In each case, however, the conference turned into a devastating public inquisition into patrimonial malfeasance and incompetence: it ultimately stripped the leaders of executive powers. Other leaders learned the lesson that there was little to be gained from agreeing to a conference, and they have steadfastly resisted opposition demands. Plebiscitary forms continue to appeal to these leaders, but they now seek them elsewhere, for example, in organized mass marches on behalf of the regime.

Military Oligarchy

Military oligarchies are exclusionary regimes in the sense that elections (even mock elections) are suspended and all decisions are made by a narrow elite behind closed doors. Although there is a visible personal leader, power is not concentrated exclusively in his hands. Rather, decisions are made collectively by a junta, committee, or cabinet that may include civilian advisers and technocrats in addition to military officers. There is a degree of debate within the elite, and objective criteria may be brought to bear in assessing policy options. A relatively professional civil or military hierarchy implements policy, and executive institutions are maintained in at least a token state.[73]

Military oligarchies in Africa tend to be led by a younger generation of junior military officers that came to power in a second, third, or later round of coups during the late 1970s and the 1980s. Political participation is severely circumscribed because there are no elections of any kind, especially in the early years of military rule. Existing political parties and many civic associations are banned, although in self-professed radical regimes such as Ethiopia or Congo, the military has usually established "people's

[73] Bienen (fn. 51), 122–45; Decalo (fn. 51, *Coups and Army Rule in Africa*), 231–54.

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committees" or a vanguard party to disseminate its message.[74] Even when military oligarchs espouse a populist ideology, however, their methods of rule do not include genuine participation, at least not until these leaders begin to make good on promises to return to civilian rule—as Huntington noted, most militaries harbor a deep distrust of politics.[75] Yet, even when they would like to, military elites lack the organizational capability to develop grassroots support.[76] This variant of neopatrimonial regime is exemplified by the governments of Jerry Rawlings in Ghana and Ibrahim Babangida in Nigeria.

Managed transitions from above are most likely in a military oligarchy. Because leaders come to power by force and govern with force, these regimes commonly encounter a crisis of legitimacy, which also results from their inability to deliver the economic growth they had promised during the takeover, the population's democratic aspirations, and the military's own promises of an eventual return to civilian rule. Yet the eventuality of a political transition is inherent to the logic of most military regimes: military oligarchs can respond to the crisis by renewing promises of a managed transition and agreeing to a more precise and perhaps shorter timetable. Thus, in Guinea and Ghana popular discontent in 1990 and 1991 compelled the regimes to speed up a managed transition that had been allowed to lapse. Military regimes as varied as Burundi, CAR, Guinea, Ghana, Lesotho, Nigeria, and Uganda have all been undergoing managed transitions since 1991. On the other hand, the annulment of the May 1993 Nigerian elections by General Babangida indicates dramatically that many of these promises to hand back power may be less than genuine.[77] And the reactionary coups that followed elections in both Nigeria and Burundi emphasize that military forces are loath to abdicate power and may easily reverse democratic gains.

The degree of military penetration of polity and society is a key regime variable in determining the prospects for regime transition. Where the military is not immersed in governmental affairs, it can easily adopt a hands-off attitude; but where it has led or participated in the governing coalition,

[74] Even then, the military has sought to limit the power and autonomy of the party, despite Leninist principles regarding the supremacy of the party over all other political institutions. See Decalo (fn. 51, "Morphology of Military Rule in Africa"), 134–35.

[75] Samuel Huntington writes: "The problem is military opposition to politics. Military leaders can easily envision themselves in a guardian role; they can also picture themselves as the far seeing impartial promoters of social and economic reform in their societies. But with rare exceptions, they shrink from assuming the role of political organizer. In particular, they condemn political parties." See Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 243.

[76] Henry Bienen, "Military Rule and Political Processes: Nigerian Examples," *Comparative Politics* 10 (January 1978).

[77] On these events, see "Nigerian Military Rulers Annul Election," *New York Times*, June 24, 1993; and "Nigeria: About Turn!" *Africa Confidential*, July 30, 1993.

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it necessarily plays a more directive role. The latter is true of the regimes we classify as military oligarchies, in which small networks of military men dominate decision making with a shallow stratum of senior civil servants, and participatory politics is severely limited. In contrast to Latin America, however, African military rulers are more reticent about handing power back to civilians, and they initiate managed transitions either without great sincerity or in response to popular protest and pressures.[78] In this sense, among others, transitions from military oligarchies remain typical of the general neopatrimonial pattern.[79]

A managed transition appeals to the military for several reasons. First, it flatters the military's idealized view of itself as a rational, orderly, and organized force trying to impose order on a discordant civilian political process. For military oligarchs, the biggest challenge is the gradual introduction of political participation. The efforts of Babangida and Rawlings to engineer the transition process, specifying rules about the formation of voluntary associations, political parties, and phasing in elections, are revealing in this respect. Second, the military's near monopoly on the means of coercion significantly enhances its control over the dynamics and outcomes of the transition. Maintaining popular support and legitimacy during the transition is less crucial for military governments, which can resort to force and repression more systematically than can civilian regimes.[80]

Moreover, because military oligarchs have repressed participatory politics, the transition unfolds with little or no organized opposition powerful enough to contest the regime's timetable. Military oligarchies have, for example, typically imposed a ban on party activity. In more pluralistic systems, political leaders may want to manage the transition unilaterally, but their plans are overturned by civic organizations strong enough to push their disagreements with the regime. In military oligarchies, by contrast, these organizations are weak and have no choice but to accept the government's plans. Moreover, whatever defects the managed transition may have, it does have the advantage of reducing uncertainty and imposing on the state a kind of accountability that weak social actors may find advantageous.[81] For its part, the regime finds the reduction in political uncertain-

[78] Christopher Clapham and George Philip, "The Political Dilemmas of Military Regimes," in Clapham and Philip, eds., *The Political Dilemmas of Military Regimes* (London: Croom Helm, 1985).

[79] For a discussion of this point, see Claude Welch, "Cincinnatus in Africa: The Possibility of Military Withdrawal from Politics," in Michael F. Lofchie, ed., *The State of the Nations: Constraints on Development in Independent Africa* (Berkeley: University of California Press, 1971).

[80] Nonetheless, the military coup by junior officers that toppled the Traoré regime in Mali in March 1991 shows that there are limits to the extent to which even a military regime can rely on force to maintain its power. See Jane Turrittin, "Mali: People Topple Traoré," *Review of African Political Economy* 52 (November 1991).

[81] As Lemarchand (fn. 29) argues: "Transitions from above are the more promising in terms of their ability to 'deliver' democracy in that they tend to be rather specific about the time frame, procedural

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ty appealing; it can promote political compromises that bring outsiders back in, protect the position of the military as an institution, limit the possibilities of getting punished for its role in various abuses of power, and slow down or halt the transition if it begins to evolve in an unfavorable direction.[82]

Competitive One-Party System

This variant of the one-party system is as inclusive as the plebiscitary variant but also (as the label suggests) somewhat more competitive. This regime is distinguished from the military oligarchy by the locus of limited competition at the mass level. Elections in these systems allow for two or more candidates in party primaries or parliamentary elections. Voters possess a restricted electoral choice among candidates from a single official party with an established policy platform. They seem sufficiently attracted by the available choices to sustain turnout figures at relatively high, though declining, levels.[83] Such regimes have also been relatively stable, resisting military intervention.

As an aspect of institutional longevity, competitive one-party regimes are often headed by nationalist founding fathers like Kaunda of Zambia and Houphouët-Boigny of Ivory Coast.[84] In some cases, the original ruler has previously engineered a smooth but nondemocratic leadership transition to a hand-picked successor (such as Moi of Kenya or Mwinyi in Tanzania). In these regimes, long-serving leaders have consolidated and

steps and overall strategy of transition. Unlike what often happens with transitions from below, the net result is to reduce uncertainty" (p. 10).

[82] In addition to the aborted transition in Nigeria, one might note events in Ghana, where Rawlings lifted the ban on political parties in May 1992 in preparation for pluralist elections in November, while simultaneously having the constitution rewritten to protect members of the ruling Provisional National Defense Council (PNDC) from prosecution by future governments. Rawlings won the elections of November 1992, in a contest widely perceived to have been marred by extensive fraud; see David Abdulai, "Rawlings 'Wins' Ghana's Presidential Elections," *Africa Today* 39 (Fall 1992), 66–71. In Uganda, President Museveni slowed down his country's managed transition in order to give himself time to build a new political party with a broad ethnoregional base; see *Africa Confidential*, April 17, 1992.

[83] These trends can be attributed to elite efforts at demobilization of formerly active participants and the co-optation or elimination of opposition power centers. They are well covered by Nelson Kasfir, *The Shrinking Political Arena: Participation and Ethnicity in African Politics with a Case Study of Uganda* (Berkeley: University of California Press, 1976). On the characteristics of single-party elections in Africa, see the following: D. G. Lavroff, ed., *Aux urnes l'Afrique! Elections et pouvoirs en Afrique Noire* (Paris: Pedone, 1978); Naomi Chazan, "African Voters at the Polls: A Re-Examination of the Role of Elections in Africa Politics," *Journal of Commonwealth and Comparative Politics* 17 (July 1979); and Fred M. Hayward, *Elections in Independent Africa* (Boulder, Colo.: Westview Press, 1987). On competitive single-party elections in Tanzania and Kenya, see Goran Hyden and Colin Leys, "Elections and Politics in Single-Party Systems: The Case of Kenya and Tanzania," *British Journal of Political Science* 2 (April 1972); and Jankees Van Donge and Athumani Liviga, "The 1985 Tanzanian Parliamentary Elections: A Conservative Election," *African Affairs* 88 (January 1989).

[84] Ivory Coast moved progressively to competitive primaries within the single party after 1980. See Tessi Bakary, "Côte d'Ivoire: Une décentralisation politique centralisé," *Géopolitique Africaine* 2 (June 1986).

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institutionalized support in ruling parties and are, or consider themselves, politically secure.[85] They tolerate a degree of pluralism, which allows for significant opposition to the government on the fringes of the single party, in the press, and in various civic associations, which are strong by African standards.

These regimes are vulnerable to collapse when economic crisis and donor-mandated economic policy reform programs cut the resources available to the ruler for managing the political game. The rotation of the political personnel becomes more frenzied, with the ranks of outsiders swelling and security declining for insiders. This paves the way for discontent and recriminations. The political transition is sparked by an upsurge of popular sentiment against the regime, which then causes stress in the elite coalition. The first casualty of political crisis tends to be the sustainability of the integrative formulas that cemented national unity and ensured political stability. The pluralistic mechanisms that promoted elite accommodation and compromise now hasten the transition and at the same time channel it.

Although the rules of the political game favor the regime, the opposition is confident enough to move directly to an election without first convening a national conference. They calculate that there are adequate opportunities to win a multiparty election under existing institutional arrangements. They demand only minor adjustments to the rules of participation and competition to ensure that elections are free and fair.[86]

Incumbents respond according to whether they are first- or second-generation leaders. Old-guard nationalists like Houphouët or Kaunda calculate on the basis of their past electoral record that they still enjoy personal political legitimacy and that their parties have the organizational strength to win a competitive election. As a result, they are willing to accept the opposition's call for elections.[87] That regular elections are held distinguishes these regimes from others in Africa. Rulers see them as a mechanism for retaining power, confident not only that they retain substantial support within the population but also that official control over the press and the electoral machinery, plus the availability of public funds to finance the rul-

[85] Henry Bienen and Nicolas van de Walle, "Of Time and Power in Africa," *American Political Science Review* 83 (March 1989).

[86] The 1991 transition in Zambia was "a struggle over the rules of the political game and the resources by which it is played (in which) . . . the ruling party employ(ed) all its strength to tilt the rules of political competition in its own favor." See Michael Bratton, "Zambia Starts Over," *Journal of Democracy* 3, no. 2 (1992), 82. Even so, the opposition successfully forced incumbent president Kaunda to forgo a referendum on multiparty politics and move directly to elections. They also felt confident enough to contest the October 1991 election under a less-than-perfect voter register and constitution.

[87] In the case of Ivory Coast at least, this calculation proved to be sound. Thus, regarding Ivory Coast, Fauré (fn. 44) argues that the victory of the ex–single party was due to the fact that "the government, thanks to its effective and very loyal territorial administration, and to the PDCI apparatus, present all over the country down to the most isolated hamlet, controlled electoral operations throughout . . . and all official information sources" (p. 37).

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ing party, will ensure a comfortable electoral victory.

The situation is more troubling for second-generation civilian leaders who lack the historical legitimacy of their predecessors. Without a well-established personal political base, they are less willing to risk multiparty elections; instead, they prevaricate and delay. Mwinyi has stretched out the transition in Tanzania for more than half a decade. When, by 1992, Moi could no longer avoid elections, he tried to restrict debate about political reform, amended the electoral code to his own advantage, and pumped up the national money supply for a massive vote-buying campaign.[88] The likelihood of ethnic tensions increases sharply in these regimes if the transition does not proceed smoothly. Leaders who lack confidence about their popular base may attempt to develop one through ethnic demagoguery once the old integrative formulas no longer appear capable of assuring political stability.

Despite these very real obstacles, the prospects for a democratic process are greater for transitions from competitive one-party regimes than from other forms of neopatrimonial regime. The reason lies in the structure of political institutions in which competitive one-party elections laid a foundation for both political participation and contestation. While incumbent and opposition forces in a transition distrust each other deeply and squabble over constitutional and electoral regulations until the eleventh hour, they also are in sufficient agreement on the rules of the political game to allow an election to take place, with each side betting it has a chance to win. Even if the losers of a transition election complain about malfeasance, they will often eventually and reluctantly accept its results and begin to organize to win the next one.[89]

Conclusions and Implications

In this essay, we have argued against the prevalent view that political transitions are driven contingently and unpredictably by the initiatives and responses of key actors. We have also contended that a search for democratic prerequisites that focuses on deep structures of economic and social

[88] Joel Barkan, "Kenya: Lessons from a Flawed Election," *Journal of Democracy* 4 (July 1993); Bard-Anders Andraesson, Gisela Geisler, and Arne Tostensen, *A Hobbled Democracy: The Kenya General Elections, 1992* (Bergen, Norway: Chr. Michelson Institute, 1993).

[89] On the Ivory Coast, for example, see the sanguine assessment of the recent progress being made toward a stable pluralist system in Yves A. Fauré, "L'Economie politique d'une démocratisation: Eléments d'analyse à propos de l'experience récente de la Côte d'Ivoire," *Politique Africaine* 43 (October 1991), 46–47. And however flawed the December 1992 election in Kenya, the transition led to democratic gains. True, the opposition did not win the election, but nowhere do we claim that this is a requirement for a democratic transition. Instead, the opposition has de facto accepted the results of the election by taking its seats in parliament; see Barkan fn. 88. Moreover, there is a new plural division of power in Kenya and a functioning opposition in parliament. These are positive factors for democratic consolidation that even paradigmatic African cases of democratic transition like Zambia do not yet enjoy. On the importance of opposition for democratic consolidation, see Stephanie Lawson, "Conceptual Issues in the Comparative Study of Regime Change and Democratization," *Comparative Politics* 25, no. 2 (1993).

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modernity overlooks important proximate political influences. Instead, we think that the institutional characteristics of the preexisting political regime impart structure to the dynamics, and to a lesser extent the outcomes, of political transitions. Regime type provides the context in which contingent factors play themselves out. If this claim is true for the weakly institutionalized neopatrimonial regimes in Africa, then it challenges political scientists to reveal the structures underlying regime transitions from more bureaucratized forms of authoritarianism in other world regions.

Our main point is that political transitions from neopatrimonial rule display distinctive features. These intervals of dramatic political change are likely to be driven from below rather than initiated by elites; they tend to be marked by factional struggles over patronage rather than by divisions of political ideology; and they are usually backed rather than resisted by emerging middle classes. Evidence for these arguments is found in the dynamics of current transitions in sub-Saharan Africa, in which the relations between state and society are shaped by personal authority, the absence of stable property rights and opportunities for capitalist accumulation, and the weakness of civic associations and political organizations. These characteristics impinge decisively on the way that political transitions unfold. Even if transitions are characterized by considerable uncertainty and some serendipity, the outcome of political struggles hinges on the way that power had been exercised by personalistic rulers.

When subjecting Africa to comparative analysis, we have tried to avoid reducing a complex continent to a single, undifferentiated category. Instead, we draw attention to variants of political regime. In the second half of this essay we have compared African neopatrimonial regimes, based on regime dimensions with proved analytic utility, and related the comparison to the continent's recent history of political turmoil. On the basis of this schema, we argue that the dynamics of political transition and the likelihood of a peaceful transition to democracy are shaped by the amount of formal political participation and competition allowed by the ancien régime.

We contend that our approach has greatest utility for analyzing transition dynamics, that is, the way political transitions unfold, rather than how they turn out. Within Africa we perceive several distinctive tendencies. Typically, transitions from personal dictatorships are driven by spontaneous street protests, focus on the fate of the ruler, and, in the absence of effective political institutions to channel political participation and contestation, tend to dissolve into chaotic conflict. Military oligarchs aim at more orderly dynamics. They seek to regulate and graduate the pace at which civilian political participation is reintroduced. To this end, they initiate and attempt to manage the process of political reform, albeit sometimes with-

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out any real intention of forfeiting power. By contrast, transitions from plebiscitary one-party regimes hinge on the issue of political competition and tend to come to a head when a national conference asserts rules that challenge the long-standing political monopolies enjoyed by incumbents. Finally, in transitions from competitive one-party regimes, the dynamics of political struggle center on whether elections, to which all parties ultimately agree, are free and fair.

Do any of these processes lead to democracy? Because political transitions in Africa are ongoing at the time of writing, we insist that it is too early to make definitive judgments. But there are beginning to emerge a few tentative trends that can serve as hypotheses for further research.

First, a consolidated democracy is much less likely to eventuate from the abrupt collapse of a personal dictatorship than from the gradual reform of a competitive one-party system. For these regime variants, levels of participation and competition are mutually reinforcing: participation and competition exist at at least moderate levels for the competitive one-party systems, yet both are extremely low for the personal dictatorships. Thus the constellation of institutional attributes (or lack of attributes) is particularly clear for these regimes, and it is somewhat easier to predict transition trajectories. Democracy is possible only in the presence of a set of political institutions that allows protagonists to propose, negotiate, and win popular acceptance for political accommodations; even then, it is never guaranteed.

Second, the messy outcomes of transitions from military oligarchies and plebiscitary regimes currently defy prediction. Transitions from these regimes invariably end imperfectly, incompletely, or ambiguously. These transitions are racked by cross-pressures deriving from a mixed institutional heritage, which promotes either limited competition without participation (military oligarchies) or symbolic participation without competition (plebiscitary systems). In military regimes the efforts of soldiers to manage participation are likely to foster artificial political institutions that lack genuine popular legitimacy. In plebiscitary regimes incumbents and opposition disagree so fundamentally about whether the rules of the game should allow political competition that repression, stalemate, or open conflict are likely to result. Although our model allows us to note tendencies in transition dynamics in these cases (that is, by a managed handover to civilians or a confrontational national conference), we cannot presently foresee outcomes.

Third, we note the particularly vexatious nature of transitions from dictatorial and plebiscitary regimes, both of which generate unregulated political conflict. This is because in both regime variants, political contestation is outlawed rather than channeled through political institutions. This sug-

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gests the general proposition that political competition is essential for a transition to democracy. While personalistic rulers may sometimes promote inclusive coalitions of support or rituals of mass participation, they cannot tolerate independent centers of political opinion and power. They would rather permit open political conflict and the decay of political institutions than share or abdicate power. Thus, getting to democracy is easier from a regime where competition is tolerated and where the main challenge is to broaden political participation; getting to democracy is much more difficult from a regime that has no tradition of political competition, however inclusive and participatory it may be.

Finally, if our logic is correct, the prospects for democracy are better in transitions from regime types other than neopatrimonial ones. This is so because greater progress has been made in other regimes in routinizing participation and (especially) competition in formal political institutions. We do not know enough about political transitions outside Africa to assess the effects of various bureaucratic authoritarian regime structures there. But our model suggests, perhaps counterintuitively, that within Africa the prospects for democracy are better in transitions from settler oligarchies than from all variants of neopatrimonial regime. Recall that settler regimes established traditions of pluralistic politics, competitive elections, and loyal opposition but that their fatal flaw was the restriction of political participation to a racial elite. Transition in these regimes is less a struggle over the right of political actors to hold diverse political beliefs than over the extension of the franchise to previously excluded sections of the population. In South Africa—in contrast to the neopatrimonial pattern outlined here, and following other bureaucratic authoritarian regimes in Latin America and Southern Europe—political transition is occurring by pact between the moderate leaders of corporate factions in the government and opposition. One might even assert that settler oligarchies stand a better chance than most other African regimes of consolidating democratic institutions. There is already evidence that former settler colonies tend to become somewhat more democratic regimes than do nonsettler colonies: for example, Zimbabwe and Namibia became multiparty competitive polyarchies after independence; and Zambia and Kenya adopted competitive, rather than plebiscitary, forms of one-party rule. These observations suggest that although political transition in South Africa may be protracted and punctuated by violence, it may well ultimately occur by negotiation. And the long-term prospects for democratic consolidation may be better there than in other parts of contemporary Africa.[90]

[90] Analysts are divided regarding the prospects for democracy in South Africa. On the one hand, South Africa's lack of national homogeneity, of broad-based economic development, and of unambiguous defeat of the old order predispose the country to continued conflict. The posttransition gov-

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One might object that an argument linking the institutional makeup of the ancien régime to the process of transition is trivial or circular. Are we simply suggesting that the more pluralistic the regime the likelier the transition will produce a pluralist democracy, surely not a very interesting theoretical claim? In fact, our argument links institutional characteristics only tangentially to the outcomes of transitions but directly to their internal dynamics, so this criticism is at best only partly on the mark. The criticism is nonetheless worth addressing in order to bring out the implications and limits of the thesis.

That history moves in incremental steps is not an earth-shattering proposition, although the current emphasis in the transitions literature on individual agency perhaps makes it a useful one. Indeed, we have tried to show that the prospects for democracy in African regimes depend on prior traditions of political pluralism. It is theoretically useful to investigate the reasons for this correlation. Bermeo has emphasized the importance of learning in the process of democratization in which changing attitudes and norms lead actors to accept new modes of political behavior.[91] Our argument suggests that organizations both within and outside the state, and the interaction between them, provide critical arenas for this learning. It will be difficult, that is, to institute new rules of accountability, tolerance, and participation if political parties or trade unions are missing or underdeveloped and if judicial and legislative bodies have no tradition of independence from the executive.

This article also stresses the formal status of institutions. For example, if civil society is weakly and informally organized, the incumbent government will probably be able to ride out any pro-democracy protests. Opportunities may exist for the fall of the regime, but in the absence of formal organizations to engineer the transition, the regime may well survive. Chazan and others have argued forcefully that, as African states repressed formal participatory structures, people shifted their efforts into

ernment may also be tempted to use the formidable apparatus of repression inherited from the current government for its own ends. See Herman Giliomee and Jannie Gagiano, eds., *The Elusive Search for Peace: South Africa, Israel and Northern Ireland* (London: Oxford University Press, 1990); and Herman Giliomee, "Democratization in South Africa" (Paper presented at the congress of the American Sociological Association, Miami, Fla., August 1993). On the other hand, some commentators see "an individually-based liberal democracy" as a viable option for permanently settling conflict in the country. See Sammy Smooha and Theodor Hanf, "The Diverse Modes of Conflict-Regulation in Deeply Divided Societies," *International Journal of Comparative Sociology* 33 (January–April 1992), 41; and F. van Zyl Slabbert, *The Quest for Democracy: South Africa in Transition* (Johannesburg: Penguin Forum Series, 1992). Our claim is comparative: we do not say that consolidated democracy is easy, imminent, or preordained in South Africa but only that it is more likely than in those African neopatrimonial regimes where political competition has been outlawed. For a similar argument, see Samuel Huntington, "Will More Countries Become Democratic?" *Political Science Quarterly* 99 (Summer 1984); and idem (fn. 4), 111–12.

[91] Nancy Bermeo, "Democracy and the Lessons of Dictatorship," *Comparative Politics* 24, no. 3 (1992).

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informal organizations, which flourished.[92] These structures—such as market women's associations, ethnic associations, and credit clubs—have directly improved peoples' welfare and by sapping the government's legitimacy may even have laid the groundwork for political liberalization. But, in the final analysis, only formal institutions—such as trade unions, human rights organizations, and, especially, political parties—can force recalcitrant governments into amending constitutions and calling elections, and appear to populations as plausible alternatives to the government in power.

Last, we emphasize that the relationship between regime type and transition is not mechanistic. Especially in relation to political outcomes, the structure of the preceding regime provides only a template that predisposes, but does not fully determine, particular results. The remainder of the explanation of political change must be derived from other factors. We consider that the effectiveness of contending state and societal organizations at achieving preferred outcomes is largely a function of the political and economic resources at their disposal during the transition. Within every regime there is a wide band of potential differences in the levels of these resources. For example, the strength of state organizations depends on the ability of leaders to maintain a flow of discretionary spoils and to sustain prebendal networks of support. Within the opposition, the strength of unions and parties depends on achieving a significant funding and membership base independent of the state and an organizational network that extends outside of the capital and into the countryside. It is these differences in resources that explain the dissimilar outcomes in, say, Benin and Togo. The tremendous fiscal crisis of Benin forced Kerekou to compromise, whereas Eyadema's intransigence has been buttressed by his continued access to international and domestic resources.[93] Unfortunately, there is currently little systematic information on the resource attributes of state and opposition organizations in Africa, and this remains a priority for future research.

[92] Naomi Chazan, "The New Politics of Participation in Tropical Africa," *Comparative Politics* 14 (January 1982); Jean François Bayart, Achille Mbembe, and C. Toulabor, *La Politique par le Bas en Afrique* (Paris: Karthala, 1991).

[93] Marc Pilon, "La transition togolaise dans l'impasse," *Politique Africaine* 49 (March 1993), 136–40; John R. Heilbrunn, "Social Origins of National Conferences in Benin and Togo," in *Journal of Modern African Studies* 31, no. 2 (1993).

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LEARNING, REALISM, AND ALLIANCES
The Weight of the Shadow of the Past

By DAN REITER*

ALLIANCES are central to international relations: they are the primary foreign policy means by which states increase their security, and they are crucial determinants of the outbreak, spread, and outcome of wars. The dominant theory in international relations scholarship—realism—because of its focus on power and security also places a great emphasis on alliances. This article tests realist predictions for alliance behavior against those of learning theory, which is emerging as an alternative conceptual framework to traditional realism. Whereas realism proposes that states ally in response to changes in the level of external threat, the learning theory advanced here proposes that states make alliance policy in accordance with lessons drawn from formative historical experiences. The empirical test in this article uses quantitative methods of analysis to compare the predictions of realism and learning for the alliance choices of minor powers in the twentieth century. The evidence clearly points to learning as the dominant explanation of states' alliance choices, and it shows that variations in the levels of external threat have only marginal effects on alliance behavior.

Significantly, these strong empirical results were achieved using a relatively simple conception of learning. The basic learning proposition is that lessons are drawn from significant foreign policy experiences: continuity of policy follows success, while innovation follows failure. Some scholars have built relatively sophisticated models of learning that incorporate microeconomic concepts of incomplete information to forecast how decision makers use new information to change their beliefs. Unfortunately, the sophistication of these models comes at the expense of constraining the degree to which they can be tested empirically. This article relies on a model of learning derived deductively from decision-making theories, yet simple enough to permit rigorous empirical testing.

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The first section of this paper draws on principles of social psychology and organization theory to build a general theory of learning in international politics, before drawing out learning hypotheses specific to the question of how states choose between alliances and neutrality. The second section presents realist ideas about how alliance choices are made, as well as specific realist hypotheses. The following sections present the data set, minor power alliance choices in the twentieth century, and a discussion of how the variables are operationalized. Empirical results are then presented and discussed, followed by conclusions.

A Theory of Learning in International Politics

Leaders often face considerable uncertainty when trying to predict the effects of foreign policy actions. In order to understand the world politics question of how foreign policy is made, it is necessary to ask the broader social science question, how do decision makers cope with uncertainty? One answer is that decision makers draw lessons from past experiences to help cope with difficult choices. In international relations scholarship, there have been a number of theoretical and empirical works that address the question of learning in international politics. Many of these works have drawn on ideas from two different fields of decision analysis: social psychology and organization theory.[1] This article draws on these two fields to build a theory that predicts that state behavior is determined by

[1] For works drawing on ideas from social psychology, see Robert Jervis, *Perceptions and Misperceptions in International Politics* (Princeton: Princeton University Press, 1976); Jack Snyder, *Ideology of the Offensive* (Ithaca, N.Y.: Cornell University Press, 1984); Deborah Welch Larson, *Origins of Containment* (Princeton: Princeton University Press, 1985); Yaacov Y. I. Vertzberger, "Foreign Policy Decisionmakers as Practical-Intuitive Historians: Applied History and Its Shortcomings," *International Studies Quarterly* 30 (June 1986); Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca, N.Y.: Cornell University Press, 1991); Yuen Foong Khong, *Analogies at War* (Princeton: Princeton University Press, 1992). For works drawing on ideas from organization theory, see John D. Steinbruner, *The Cybernetic Theory of Decision* (Princeton: Princeton University Press, 1974); John P. Lovell, "Lessons of U.S. Military Involvement: Preliminary Conceptualization," in Donald A. Sylvan and Steve Chan, eds., *Foreign Policy Decision Making* (New York: Praeger, 1984); Barry Posen, *Sources of Military Doctrine* (Ithaca, N.Y.: Cornell University Press, 1984); Matthew Evangelista, *Innovation and the Arms Race* (Ithaca, N.Y.: Cornell University Press, 1988); Scott D. Sagan, *The Limits of Safety: Organizations, Accidents, and Nuclear Weapons* (Princeton: Princeton University Press, 1993). Ideas from information economics have been applied to this question, as well. See, for example, Robert Powell, "Nuclear Brinksmanship with Two-Sided Incomplete Informaton," *American Political Science Review* 82 (March 1988), and R. Harrison Wagner, "Uncertainty, Rational Learning, and Bargaining in the Cuban Missile Crisis," in Peter C. Ordeshook, ed., *Models of Strategic Choice in Politics* (Ann Arbor: University of Michigan Press, 1989). For a review of different ideas about learning in international relations scholarship, see Jack S. Levy, "Learning, and Foreign Policy: Sweeping a Conceptual Minefield," *International Organization* 48 (Spring 1994); and William W. Jarosz with Joseph S. Nye, Jr., "The Shadow of the Past: Learning from History in National Security Decision Making," in Philip E. Tetlock et al., eds., *Behavior, Society, and International Conflict*, vol. 3 (New York: Oxford University Press, 1993).

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experiential learning.[2] Since state action is the product both of individuals acting on the basis of their own beliefs and of organizations acting within the larger framework of the state and society, decision theories from both of these fields are necessary to provide a complete understanding of the learning process.

Decision Theory Foundations

Social psychology portrays the human individual less as obeying the dictates and logic of the scientific method, and more as seeking explanations using less reliable analytic techniques. This is a vision of the individual as a "naive scientist"; people are seen as using the imprecise tools of human intuition to seek knowledge. Richard Nisbett and Lee Ross described two sets of tools used by the naive scientist: knowledge structures and judgmental heuristics.[3] Knowledge structures, or schemata, are mental frameworks within which data are organized for storage and retrieval. Schemata serve a number of functions: they lend structure to experience, determine what information will be encoded or retrieved from memory, affect the speed of cognition, and facilitate problem solving.[4] Such knowledge structures are used for the attribution of causation—if an individual attempting to attribute causation perceives in the environment a cue for a particular schema, then this schema is recalled to present an explanation for the phenomenon in question.[5]

The second set of tools—judgmental heuristics—are strategies used for the execution of certain inferential tasks.[6] The social psychology literature outlines three such heuristics: the representativeness heuristic, which guides individuals to associate an event with a causative explanation that has some similar characteristics; second, availability, which proposes that

[2] For this study, learning is broadly conceptualized as the application of information derived from past experiences to acquire understanding of a particular policy question. This is distinct from what has been called "corrective" learning, in which experience necessarily improves performance over time. For a discussion of different definitions of learning, see Philip E. Tetlock, "Learning in U.S. and Soviet Foreign Policy: In Search of an Elusive Concept," in George W. Breslauer and Philip E. Tetlock, eds., *Learning in U.S. and Soviet Foreign Policy* (Boulder, Colo.: Westview Press, 1991).

[3] Richard Nisbett and Lee Ross, *Human Inference: Strategies and Shortcomings of Social Judgment* (Englewood Cliffs, N.J.: Prentice-Hall, 1980).

[4] Shelley E. Taylor and Jennifer Crocker, "Schematic Bases of Social Information Processing," in E. Tory Higgins, C. Peter Herman, and Mark P. Zanna, eds., *Social Cognition: The Ontario Symposium*, vol. 1 (Hillsdale, N.J.: Lawrence Erlbaum Associates, 1981); Roger Schank and Robert P. Abelson, *Scripts, Plans, Goals and Understanding* (Hillsdale, N.J.: Lawrence Erlbaum Associates, 1977).

[5] Robert P. Abelson, "Script Processing in Attitude Formation and Decision Making," in *Cognition and Social Behavior* (Hillsdale, N.J.: Lawrence Erlbaum Associates, 1976); Abelson and Mansur Lalljee, "Knowledge Structures and Causal Explanation," in Denis J. Hilton, ed., *Contemporary Science and Natural Explanation* (New York: New York University Press, 1988). For a discussion of schemata as applied to international relations, see Larson (fn. 1).

[6] Daniel Kahneman, Paul Slovic, and Amos Tversky, eds., *Judgment under Uncertainty: Heuristics and Biases* (Cambridge: Cambridge University Press, 1982); Nisbett and Ross (fn. 3).

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information more available in memory storage is more likely to be accessed than information that is less available, so that information perceptually salient to the observer often attracts causal attribution; finally, anchoring and adjustment, or that which impels individuals to make insufficient adjustments from an initial judgment as more information is received.

One theory of learning that combines the ideas of knowledge structures and judgmental heuristics is analogical reasoning. Individual reasoning on the basis of analogies draws parallels with past events to provide guidance for the problem at hand.[7] This idea fits in well with the basic principles of knowledge structures laid out above, in that individuals reason by drawing on schemata/analogies in order to facilitate data storage and retrieval. Experimental studies have found subjects prone to reasoning on the basis of a single instance, confirming that schemata are used to cope with situations requiring great cognitive effort,[8] and that subjects who were given descriptions that included irrelevant items that were intended to cue them to certain analogies made judgments in accordance with the intended analogies more than subjects who read descriptions without such cues.[9]

Organization theorists have also placed great emphasis on the topic of learning. Three central principles of organizational behavior relevant to organizational learning have emerged from the last several decades of research: organizations are oriented toward targets, organizational behavior is driven by routines, and organizational behavior is history dependent.[10] In assessing how organizations learn from experience, some scholars have found that organizations are most likely to change old ways of thinking and behaving after failures, which both spur action and provide a rich source of information for determining how to improve operations. Successes, on the other hand, provide information and often the resources necessary to conduct searches for improvements in strategy, but also tend to produce complacency and stifle the drive to innovate.[11]

Both the social psychology and organization theory views of learning predict that the inertia acquired by belief systems ought to make learning

[7] Stella Vosniadu and Andrew Ortony, eds., *Similarity and Analogical Reasoning* (Cambridge: Cambridge University Press, 1989); Khong (fn. 1).

[8] Stephen J. Read, "Once Is Enough: Causal Reasoning from a Single Instance," *Journal of Personality and Social Psychology* 45, no. 2 (1983).

[9] Thomas Gilovich, "Seeing the Past in the Present: The Effect of Associations to Familiar Events on Judgments and Decisions," *Journal of Personality and Social Psychology* 40, no. 5 (1981).

[10] Barbara Levitt and James G. March, "Organizational Learning," *Annual Review of Sociology* 14 (1988). See also Chris Argyris, *On Organizational Learning* (Cambridge, Mass.: Blackwell, 1993).

[11] Sim B. Sitkin, "Learning through Failure: The Strategy of Small Losses," in Barry M. Staw and L. L. Cummings, eds., *Research in Organizational Behavior* 14 (Greenwich, Conn.: JAI Press, 1992); Bo Hedberg, "How Organizations Learn and Unlearn," in Paul C. Nystrom and William H. Starbuck, eds., *Handbook of Organizational Design* (London: Oxford University Press, 1981), 1:17–18; Philip Mirvis and David Berg, eds., *Failures in Organization Development and Change* (New York: Wiley, 1977).

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relatively infrequent. Individuals' knowledge structures tend to acquire inertia, such that beliefs tend to persevere through reception of new, discrepant information.[12] Similarly, organizations tend to develop collective interpretations of history, which acquire the status of myth within the organization and can be very resistant to change.[13] For both individuals and organizations, often only a crisis or significant experience can overcome this inertia and form a new belief. From a social psychological point of view, there are two (nonexclusive) ways of thinking about what makes an event formative: that the nature of an event makes it more available to memory, and that an event actually creates a new schema. Social psychology predicts that events that are vivid to the perceiver are more likely both to be more available to memory and to form a new schema. Information has been described by social psychologists as vivid "to the extent that it is (a) emotionally interesting, (b) concrete and imagery-provoking, and (c) proximate in a sensory, temporal, or spatial way."[14] These sorts of ideas are easily applied to international politics: one can distinguish between events with more or less emotional or physical impact (such as wars causing either many or few casualties), and between events directly experienced (and therefore vivid) versus events that happen to another state (and are therefore experienced only vicariously). Vivid information is theorized to be easier to recall, because of emotional affect and the greater amount of sensorily interesting detail associated with vivid information. Further, a vivid event is more likely to engender the recruitment of entirely new schemata, thereby providing analogies for future application. Despite the strong theoretical support for the vividness effect, the experimental evidence from social psychology is mixed, though some studies of learning in world politics have observed learning in accordance with the vividness effect.[15] Organization theory cat-

[12] Nisbett and Ross (fn. 3).

[13] Paul C. Nystrom and William H. Starbuck, "Managing Beliefs in Organizations," *Journal of Applied Behavioral Science* 20, no. 3 (1984); Hedberg (fn. 11), 6; Levitt and March (fn. 10), 324; Sten A. Jönsson and Rolf A. Lundin, "Myths and Wishful Thinking as Management Tools," in Paul C. Nystrom and William H. Starbuck, eds., *Prescriptive Models of Organizations* (Amsterdam: North-Holland, 1977).

[14] Nisbett and Ross (fn. 3), 45. On schemata and belief changes, see Jennifer Crocker, Susan T. Fiske, and Shelley E. Taylor, "Schematic Bases of Belief Change," in J. Richard Eiser, ed., *Attitudinal Judgment* (New York: Springer-Verlag, 1984).

[15] A number of studies have failed to find that vivid events are more persuasive. See Shelley E. Taylor and Suzanne C. Thompson, "Stalking the Elusive 'Vividness' Effect," *Psychological Review* 89 (1982); Shelley E. Taylor and Joanne V. Wood, "The Vividness Effect: Making a Mountain out of a Molehill?" in Richard P. Bogozzi and Alice M. Tybout, eds., *Advances in Consumer Research* 10 (Ann Arbor, Mich.: Association of Consumer Research, 1983); Rebecca L. Collins et al., "The Vividness Effect: Elusive or Illusory?" *Journal of Experimental Social Psychology* 24 (January 1988), Susan T. Fiske and Shelley Taylor, *Social Cognition*, 2d ed. (New York: McGraw-Hill, 1991). However, Collins et al. found that vivid events are *believed* to be more persuasive, raising the possibility that vivid events are more persuasive by self-fulfilling prophecy. Additionally, some studies have found that events experienced firsthand have a greater impact on behavior than those experienced vicariously. See Fiske and Taylor, 520–21, and Sanford L. Braver and Van Rohrer, "Superiority of Vicarious over Direct

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egorizes events along similar lines. A significant crisis threatening organizational goals is often necessary to dislodge beliefs and encourage new thinking. Similarly, direct experience can be more likely to stimulate organizational learning than events experienced vicariously.[16]

Learning Hypotheses

The empirical question of this paper is, what are the causes of states' preferences for alliance or neutrality? An alliance is defined as *a formal and mutual commitment to contribute military assistance in the event one of the alliance partners is attacked.*[17] When deciding whether to enter an alliance or remain neutral, a nation must consider that entering an alliance in peacetime provides the benefits of extended deterrence and military assistance in the event of war, at the expense of raising the risks of being involved in wars of no direct interest to the nation. Neutrality offers the benefit of decreasing the chances of involvement in the wars of other nations, with the cost that the nation has no allies to help deter potential aggressors or defend against attacks.[18] This is a choice for which there is no universal, indisputable answer; neither neutrality nor alliance is a logically dominant strategy for all nations at all times. Therefore, whether a state chooses alliance or neutrality is likely to depend on whether it believes that alliance poses too great a risk of involvement or if it believes that international cooperation is necessary to protect its security.

Of course, characterizing a state's alliance policy as either allied or neutral is something of a simplification. Rather than as a dichotomy, the choice of neutrality or alliance can be conceptualized as a continuum along which there are different degrees of neutrality and alliance. However, the act of signing a mutual defense treaty is a unique dividing place along the spectrum, as relations between states that have such a treaty are qualitatively different than they are when no such treaty exists. Empirical research confirms that a state is more likely to go to war to aid another state if there

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Experience in Interpersonal Conflict Resolution," *Journal of Conflict Resolution* 22, no. 1 (1978). For examples of international relations research that found that events experienced firsthand were formative of beliefs, see Jervis (fn. 1) and Khong (fn. 1).

[16] Sitkin (fn. 11), 238; Levitt and March (fn. 10), 329–31; Viday Mahajan, Subhash Sharma, and Richard Bettis, "Adoption of the M-Form Organizational Structure: A Test of Imitation Hypothesis," *Management Science* 34 (October 1988).

[17] The formality of an alliance declaration is not a diplomatic triviality. Morgenthau has remarked, "When the common interests are inchoate in terms of policy and action, a treaty of alliance is required to make them explicit and operative." Hans Morgenthau, "Alliances in Theory and Practice," in Arnold Wolfers, ed., *Alliance Policy in the Cold War* (Baltimore: Johns Hopkins University Press, 1959), 188.

[18] Alliances with great powers are distinguished here from one-way commitments by a great power to defend the minor power, because mutual alliances increase the minor power's risk of entanglement far more than one-way commitments.

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is a mutual defense pact between them.[19] The significance of these agreements makes the decision of whether or not to become party to one the most important choice a state will make in fashioning its alliance policy.

In terms of learning theory itself, the tendency for decision makers to learn simple lessons argues for keeping the set of possible lessons limited. Learners tend to keep analogies simple; the more complex the analogy, the more difficult is its application in a different context. For example, if the lesson from the appeasement at Munich in 1938 was, "When faced with a German threat to annex an ethnically similar piece of territory from a neighbor, the British and French should not give in," it could not have been applied by American decision makers to the contextually different decision to defend South Korea in 1950. Instead, the lesson taken from Munich was kept broad and simple—"aggressors must be opposed to prevent future aggression"—so that it could be applied to other circumstances. Additionally, less cognitive effort is required both to construct and to apply lessons that are simple, because there are fewer historical idiosyncrasies that have to be matched between the past event and the current context. Of course, relying on overly simple lessons and neglecting important historical details can often lead to inappropriate analogizing and misguided choices.[20] In sum, this model assumes that nations can draw one of two lessons from a formative event: either that neutrality best protects national security or that alliance best protects national security.

The empirical analysis in this paper is limited to the alliance choices of minor powers. Great and minor powers need to be considered separately because they have fundamentally different security needs: a minor power is concerned mostly with direct threats to its security, whereas a great power must also consider the security of those proximate and overseas territories and countries instrumental to the security of its homeland and national interests.[21] This greater simplicity of minor powers' foreign interests means that experiences can be more easily coded as successes or failures, as a minor power focuses mostly on the question of how its choice of alliance or neutrality affected the national security and territorial integrity of the homeland. A great power, on the other hand, must assess the effects of an experience—such as a major war or diplomatic crisis—along a number of

[19] J. David Singer and Melvin Small, "Formal Alliances, 1815–1939," *Journal of Peace Research* 3, no. 1 (1966); and Paul Huth and Bruce Russett, "Deterrence Failure and Crisis Escalation," *International Studies Quarterly* 32 (March 1988).

[20] Ernest R. May, *"Lessons" of the Past* (New York: Oxford University Press, 1973); Richard E. Neustadt and Ernest R. May, *Thinking in Time: The Uses of History for Decision-Makers* (New York: Free Press, 1986); Khong (fn. 1).

[21] George Liska, *International Equilibrium* (Cambridge: Harvard University Press, 1957), 25; Raymond Aron, *Peace and War: A Theory of International Relations*, trans. Richard Howard and Annette Baker Fox (Garden City, N.Y.: Doubleday, 1966), 58; Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979), 72.

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dimensions because of its extended foreign policy interests. Limiting the data set to minor powers makes it easier to compose a complete list of possible lessons a state might garner from a formative experience, increasing confidence that the learning hypotheses are a valid test of learning theory. This maintenance of internal validity comes at the expense of diminishing the external validity of the test, since if minor and great powers draw different kinds of lessons from systemic wars, then the minor power learning hypotheses are not easily applied to the behavior of great powers. However, if the empirical tests reveal that these learning hypotheses are powerful explanations of minor power behavior, then we can suspect that learning *theory* might also enhance our understanding of great power behavior, given that organization theory and social psychology principles ought to apply to great power decision processes, too.

Since a peacetime military alliance explicitly addresses the possibility of war, experiences in wars ought to be formative of beliefs about alliances. Indeed, social psychology would predict that since alliance policy is the centerpiece of a minor power's wartime foreign policy, it will be assigned responsibility for success or failure in the war, perhaps even if the minor's alliance choice was irrelevant to its eventual fate. Systemic wars in which great powers fight each other for very high political stakes are the most likely of wars to be formative because they are generally the most earthshaking events in world politics, providing "the punctuation marks of history, primarily because they force drastic realignments in the relationships among states."[22] Further, in systemic wars more than in other wars minor powers are more likely to attribute their fortunes to their alliances, because in a systemic war the minor power's relative weakness makes its alliance choice crucial to determining whether or not it is involved in the war and, if involved, how it will fare. Since systemic wars are used as formative events, the model focuses on the preference of minor powers for alliance with great powers only, as a minor power's alliances with other minor powers are generally not meant as a solution to the problem of such a systemic war, but rather for smaller scale threats. Therefore, the general proposition (discussed in more detail below) is that systemic wars are formative events that determine minor powers' beliefs concerning whether neutrality or alliance with great powers is preferable. Some nonsystemic wars may be

[22] Sally Marks, *The Illusion of Peace: International Relations in Europe, 1918–1933* (New York: St. Martin's Press, 1976), 1. See also Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); Jack S. Levy, *War in the Modern Great Power System, 1495–1975* (Lexington: University Press of Kentucky, 1983); William R. Thompson, *On Global War: Historical-Structural Approaches to World Politics* (Columbia: University of South Carolina Press, 1988); and George Modelski, *Long Cycles in World Politics* (Seattle: University of Washington Press, 1987). A leading proponent of the argument that systemic wars do not have unique causes agrees that systemic wars do have unique effects. Bruce Bueno de Mesquita, "Big Wars, Little Wars: Avoiding Selection Bias," *International Interactions* 16, no. 3 (1990), 159–60.

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significant enough to form a minor power's beliefs about alliances; but the majority of these conflicts are not likely to be, especially given that alliances generally play a lesser role in nonsystemic wars because of their smaller scale. In other words, internal validity is better maintained by excluding all nonsystemic wars in this study, thereby risking the exclusion of a few formative events, than by including all nonsystemic wars and including several events that are not likely to be formative of beliefs about alliances.

World Wars I and II were the systemic wars of the modern era for which the choice of alliance or neutrality was most important for minor powers.[23] In a systemic war, a minor power attempts to be either allied or neutral. *A minor power is defined as attempting to be allied if it has a mutual defense treaty with one or more of the belligerent great powers when war breaks out, or if it is a neutral at the start of the war but eventually joins one of the warring coalitions without being attacked first.* Otherwise, it is attempting neutrality. Organization theory predicts that whether the outcome was failure or success dominates the drawing of lessons, and that failure encourages innovation while success promotes continuance. Success and failure are defined as follows:

> —If a minor power attempted neutrality in a systemic war and was not invaded during the war, the experience is considered a success; otherwise, it is a failure.[24]
>
> —If a minor power attempted being allied, was on the winning side, and was not invaded, the experience was a success. If it was allied and invaded but acquired more population in postwar territorial settlement than it lost in the war, the experience was a success. The experience was a failure if a nation was allied and on the losing side, or if it was on the winning side and was invaded and did not recover as much population in postwar territorial settlements as it lost during the war.[25]

Two different propositions of how formative events drive behavior were tested. The first proposition assumes that the vividness of a state's *individual* experiences dominates belief formation, so that its individual, national experience in a systemic war determines what lessons are drawn and how it behaves after the war.[26] The systemic war is clearly formative for all states

[23] Neutrality and alliance were not important policy categories for most minor powers after either the Wars of Louis XIV, when the concepts of sovereignty and independence were not as widely applicable as in the twentieth century, or the Napoleonic Wars, when the great powers imposed order via the Concert of Europe.

[24] Invasion constitutes the failure of neutrality since the primary reason neutrality is chosen is to avoid participation in war.

[25] This is admittedly a crude measure for alliance failure, but population is a good index with which to compare wartime losses with gains made in postwar settlements.

[26] It is also assumed that a formative event (systemic war, in this application) has a watershed effect, such that previous formative events are dominated by the most recent formative event in terms of belief formation. This watershed assumption is necessary to avoid infinite regress in determining which event is formative. For 1994 France, for example, there are a number of events that one could deem to be the "primary" event in French learning about international affairs, such as World War II, World War I,

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who were belligerents in the war; a nearby state that escapes participation by remaining neutral has also had a formative experience, in the same way that an individual who escapes injury in a severe car accident because she wore her seatbelt is likely to become an ardent supporter of seatbelt use.

Hypothesis 1. A minor power can attempt either alliance or neutrality with a great power in a systemic war. If it experiences failure, it will switch policies following that war; if it experiences success, it will continue that policy.[27]

A different learning hypothesis assumes that a state does not focus solely on its own experience, believing instead that a lesson should incorporate the formative event experiences of all states. The implication is that all states garner the same lesson from a systemwide, formative event, regardless of individual experience.[28] According to this latter proposition, a minor power would weigh the formative event experiences of all minor powers equally in order to determine a composite lesson about the relative merits of alliance and neutrality. A single systemwide lesson produced by a formative event is learned by all minor powers, and can range from strongly advocating alliance, to indifference between neutrality and alliance, to strongly advocating neutrality.

Hypothesis 2. A systemic war will produce a systemwide lesson on the effectiveness of alliance with a great power based on the sum of experiences of minor powers in the war. All minor powers will adopt policies in congruence with the systemwide lesson in the years following the war.

Realism and Alliances

The dominant theory of international relations is realism. Kenneth Waltz's neorealism is the definitive, modern statement of the realist emphasis on national power, the importance of security concerns, and the focus on the state as the important actor in international politics. Significantly, its structural emphasis centers on the behavior of great powers, and offers few answers to the question of how minor powers behave.[29] However, Waltz's

the Napoleonic Wars, and so forth. The organization theory proposition that crises create new myths that replace old ones supports the watershed assumption.

[27] A similar argument was made by Donald E. Nuechterlein, "Small States in Alliances: Iceland, Thailand, Australia," *Orbis* 13 (Summer 1969). This paper builds on this past work by constructing a theory of learning, testing its predictions on a broader set of data, and comparing these predictions to those of realism.

[28] If a state thinks that its own experience is not idiosyncratic and that the experiences of other nations are relevant, then learning from the experience of all minor powers in a formative event would be more unbiased than learning just from one's own experience.

[29] Waltz (fn. 21), is quite blunt on this point (pp. 72–73). There is, however, a considerable literature on the foreign policy problems of non-great powers—termed variously as middle powers, small powers, weak states, and the like—though it is often descriptive rather than predictive. See Annette Baker Fox, *The Power of Small States: Diplomacy in World War II* (Chicago: University of Chicago Press, 1959); Robert L. Rothstein, *Alliances and Small Powers* (New York: Columbia University Press, 1968);

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description of two alliance behaviors for great powers in the face of threat—*buck-passing* (loosening alliance commitments) and *chain-ganging* (tightening alliance commitments)—closely reflects the decisions faced by minor powers. Like neutrality, buck-passing entails decreasing the chances of successful deterrence and defense in order to decrease the chance of entanglement; and, as with alliance, chain-ganging entails increasing the chances of successful deterrence and defense at the expense of increasing the chances of entanglement. Thomas Christensen and Jack Snyder argued that Waltz's structural realism is insufficiently specified to predict whether buck-passing or chain-ganging is more likely. They add a new variable to structural realism, proposing that when the global power structure is multipolar, buck-passing is more likely if the defense is perceived to have an advantage on the battlefield, while chain-ganging is more likely if the offense is perceived to have the advantage. Significantly, these latter authors concede that it is *beliefs* about the offense/defense balance, a parameter clearly outside the sparse theoretical structure of structural realism, that determine whether chain-ganging or buck-passing prevails, as opposed to the objective state of the offense/defense balance.[30]

A variant of realism that avoids reliance on beliefs to make predictions about the alliance choices of minor powers is Stephen Walt's balance of threat theory.[31] Walt explored the question of whether a state, when faced with an external threat, would ally against the source of threat (*balance*) or with the source of the threat (*bandwagon*). Walt outlined a number of hypotheses predicting when states would be more likely to balance and when they would be more likely to bandwagon, and found that balancing is more prevalent than bandwagoning. Walt also provided an answer to the question of why states seek to join alliances at all: they do so as a response to a perceived threat, since, as threat increases, the probability of alliance (whether it be with or against the source of the threat) increases; and as threat decreases, the probability that new alliances will form decreases and the probability that existing alliances will break apart increases.[32] He has

Jerry Wilson Ralston, *The Defense of Small States in the Nuclear Age: The Case of Sweden and Switzerland* (Neuchatel: La Baconnière, 1969); Robert O. Keohane, "Lilliputians' Dilemmas: Small States in International Politics," *International Organization* 23 (Spring 1969); Peter J. Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985); Efraim Karsh, *Neutrality and Small States* (London: Routledge, 1988); and Karl Mueller, "Strategy, Asymmetric Deterrence, and Accommodation: Middle Powers and Security in Modern Europe" (Ph.D. diss., Princeton University, 1991).

[30] Thomas J. Christensen and Jack L. Snyder, "Chain Gangs and Passed Bucks: Predicting Alliance Patterns in Multipolarity," *International Organization* 44 (Spring 1990). Interestingly, they note that experiences often drive beliefs about the offense-defense balance. For a diverse list of propositions concerning alliances, see Ole Holsti, P. Terrence Hopmann, and John D. Sullivan, *Unity and Disintegration in International Alliances: Comparative Studies* (New York: John Wiley, 1973).

[31] Stephen M. Walt, *The Origins of Alliances* (Ithaca, N.Y.: Cornell University Press, 1987).

[32] This last point, that alliances are likely to break up as the threat recedes or disappears (such as after an aggressor is defeated in war), was made by Walt (fn. 31), 29–30; and Morgenthau (fn. 17), 191–92.

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executed case studies of his theory for alliance behavior in the Middle East and Southwest Asia.[33]

Significantly, Walt defines bandwagoning in such a way that true neutrality is not an option for a threatened state. If, when faced with a threat, a state signs no formal alliance with the source of threat, then Walt considers this to be accommodation and, therefore, bandwagoning with the source of threat. For example, he views Belgium's formal declaration of neutrality in the late 1930s as bandwagoning with Germany, though Belgium signed no alliance or nonaggression pact with Germany.[34]

This conflation of three categories—bandwagoning, balancing, and neutrality—into two—bandwagoning and balancing—is unjustified, as there are genuinely different consequences for a state that opts for formal neutrality than there are for one that bandwagons. A formal alliance is a very good indicator of the likelihood that one state will agree to defend another state if attacked: in a military crisis, a formal alliance may be necessary to ensure the participation of an otherwise uninvolved participant because of the implications that breaking an alliance would have for that state's international reputation.[35] The international arena is not as zero-sum as Walt would imply; not every state need be classified as either with one side or with the other in a conflict. Some states may attempt to avoid becoming embroiled in future military conflict by not taking sides. As Robert Osgood put it, "Every state must have an alliance policy, even if its purpose is only to avoid alliances."[36] Additionally, if neutrality can be defined as alliance, then balance of threat theory has made one of its principal claims—that the probability of alliance is positively correlated with the perceived level of threat—quite difficult to falsify. In a threatening environment, every state, even those that have formally declared neutrality, could be coded as having allied with some side; this makes it far too easy to find that there are no

[33] Walt (fn. 31); and idem, "Testing Theories of Alliance Formation: The Case of Southwest Asia," *International Organization* 42 (Spring 1988). A number of quantitative studies using an expected utility approach have found varying empirical support for the general proposition that threats play a part in driving alliance choices, though most of these works have tested models of decision that are more sophisticated than Walt's. See Bruce D. Berkowitz, "Realignment in International Treaty Organizations," *International Studies Quarterly* 27 (March 1983); Michael T. Altfeld, "The Decision to Ally," *Western Political Quarterly* 37 (December 1984); David Lalman and David Newman, "Alliance Formation and National Security," *International Interactions* 16, no. 4 (1991); Thomas R. Cusack and Richard J. Stoll, "Balancing Behavior in the Interstate System, 1816–1976," *International Interactions* 16, no. 4 (1991). For an expected utility model that emphasizes the importance of domestic as well as international factors in shaping alliance behavior, see James D. Morrow, "Alliances and Asymmetry: An Alternative to the Capability Model of Alliances," *American Journal of Political Science* 47 (November 1991); and idem, "Arms versus Allies: Trade-Offs in the Search for Security," *International Organization* 47 (Spring 1993).

[34] Walt (fn. 31), 31n.

[35] See the works cited in fn. 19.

[36] Robert E. Osgood, *Alliances and American Foreign Policy* (Baltimore: Johns Hopkins University Press, 1968), 19–20.

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states that do not enter alliances in the face of threat, seriously undermining the falsifiability of the threat-alliance proposition.

As applied to the structural realist dichotomy of buck-passing and chain-ganging, Walt's argument that threats motivate alliances implies that chain-ganging dominates buck-passing. Of course, it is possible that, in the face of a general threat posed to the international system, such as the Nazi German threat in the late 1930s, minor powers might follow the basic logic of buck-passing and seek neutrality to avoid the risks of entanglement, rather than follow the logic of balancing or bandwagoning by entering an alliance. Extending Christensen's and Snyder's argument, I propose that there is not theoretical space in traditional realism to predict whether minor powers are likely to prefer neutrality or alliance in the face of a systemic threat. Realism provides the theoretical structure to support predictions opposite one another that, when facing a systemic threat, the affected minor powers could enter alliances to either balance against or bandwagon with the threat, or they could seek neutrality in order to pass the buck of defending the status quo to other countries. The argument of this paper, parallel to that of Christensen and Snyder, is that a minor power's formative experiences in wartime determine whether it will subscribe to the logic of neutrality or alliance, and therefore whether it will choose alliance or neutrality in the years after the war. To provide a comparative test of the argument that experiences determine alliance policy, this paper will test a simple balance of threat prediction, that the probability of alliance is positively correlated with the presence of external threat.

While learning predicts that formative experiences determine whether or not a minor power will prefer alliance with a great power, balance of threat theory predicts that a minor power is more likely to prefer alliance with a great power—whether it be a revisionist or status quo great power—when the prospect of such a systemic war appears imminent. The prospect of such a great power war concerns all minor powers in the region because their geographic proximity risks their involvement. A revisionist great power may invade a neutral minor power in order to take advantage of the minor power's geographical location in its struggle with other great powers, even if the neutral power has no specific dispute with the revisionist. For example, Germany invaded neutral Belgium in 1914 and 1940 even though Germany had no disputes with Belgium—each time it needed to move through Belgian territory in order to improve its chances of inflicting military defeat on France. Balance of threat theory would predict that if systemic war appears to be impending, a minor power would join either with the revisionist power in order to avoid being overrun or with the defending powers in an attempt to balance against the revisionist threat.

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Even though a specific threat may not be posed to the minor power in question, it ought to perceive a threat to its security coming from potential involvement in a systemwide conflict. The logic of balance of threat theory predicts that the minor power would prefer alliance in the face of such a peril, which I will refer to as "systemic threat."

Hypothesis 3. A minor power is more likely to prefer alliance with a great power if it perceives that a systemic war in its region is imminent.

The relative military status of the minor power is also likely to affect its perception of threat and therefore the likelihood of its willingness to prefer alliance. Realism predicts that a relatively strong minor power may feel that it will be left alone in a major war; even if its military capabilities are not large enough to prevent conquest by a great power, they may be sufficient to inflict high enough costs on the great power to dissuade it from attacking.[37] Conversely, a very small minor power will probably not feel that it can inflict enough costs on a great power invader to discourage it from attacking.

Hypothesis 3a. If a minor power perceives that a systemic war is imminent, the greater the military disadvantage it faces concerning the potential great power revisionist, the more likely it will be to prefer great power alliance.

Balance of threat theory predicts that geography plays an important role in mediating threat.[38] If a minor power is geographically exposed to a potential great power revisionist, it is more likely to think that it will be drawn into a systemic war than if it rests at the geographic perimeter of the system. The exposed minor power, therefore, perceives a greater threat and is more likely to prefer alliance.

Hypothesis 3b. If a minor power perceives that a systemic war is imminent, it is more likely to prefer great power alliance if it is geographically exposed to the potential revisionist than if it is not.

The dependent variable is limited to one form of third-party assistance, mutual defense alliances with great powers. If a minor power can count on one-way defense commitments made to it by one or more great powers, it will be less likely to prefer a mutually committing alliance with a great power. In such a case, the minor power has acquired great power extended deterrence without increasing the chances of its entanglement in a war.

Hypothesis 3c. If a minor power perceives that a systemic war is imminent, it is less likely to prefer great power alliance if one or more great powers have made nonalliance defense commitments to it than if no such commitments have been made.

[37] Mueller (fn. 29).
[38] Walt (fn. 31), 23–24.

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A minor power can also be threatened (and therefore prefer alliance) if it perceives the possibility of being attacked based on a more specific, local issue, such as a demand for the revision of a territorial border. Such a threat could come from one or more states, great or minor. Balance of threat theory predicts that the presence of such a threat would increase the probability that the threatened minor would prefer an alliance with a great power, though it also allows for the possibility that the threatened minor would seek alliance with one or more other minor powers (a dependent variable not examined in this article), given that such a threat, which I will call "direct threat," would often be more limited than a systemic threat.

Hypothesis 4. The level of perceived direct threat is positively correlated with the probability that a minor power will prefer alliance with a great power.

Balance of threat theory also predicts that if the minor power in question has alliances with other minor powers or nonalliance defense commitments from great powers, the external threat is effectively lessened, so the need to ally with a great power to deal with the direct threat is diminished.

Hypothesis 4a. The more a minor power can count on minor power alliances or nonalliance great power commitments, the less likely it will be to seek great power alliance in the face of a direct-level threat.

A vigorous balance of threat advocate might argue that learning is just a special application of balance of threat theory, in that learning theory proposes that a state adopts a policy of neutrality or alliance based on its belief about which one more effectively deals with threats. Strictly speaking, this is partly true: the learning theory outlined here maintains that the problem to which a policy of neutrality or alliance is addressed is threat from the international environment. However, while balance of threat theory assumes that the universal response to threat is either to ally with or against it, learning theory proposes that a state can follow either buck-passing/neutrality logic or balance/bandwagon logic to address an emerging threat. Also, balance of threat theory focuses on short-term reactions to changes in the international environment, while learning theory explains how long-term ideas about grand strategy are formulated. After a formative event, learning theory predicts that a state that has learned a lesson favoring alliance would prefer alliance with a great power even if there is no current threat in the international environment, because such an orientation is in accord with a broad belief in the utility of alliance in dealing with threats when they arrive. A balance of threat advocate might contend that this is a case of a state balancing against a possible future threat, therefore validating her theory. However, if this were true, then all states would always prefer alliance, since the international anarchy assumed by realism means that a future threat is always possible. If she argued that some states

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do not always prefer alliance because different states have different views on how to address possible future threats, then this would beg the question of where these different views come from, which learning theory answers by proposing that past experiences determine how states come to view the best way of dealing with future threats.

Data

Cases

The objective of the empirical test was to build a data set large enough to permit generalization of the results based on the application of quantitative methods of analysis.[39] Cases in the data set are observations of peacetime behavior of minor powers, specifically whether or not the minor power preferred alliance with a great power or not at a given time (as distinct from the question of whether or not a minor power was actually a member of an alliance) following two formative events in the twentieth century, World Wars I and II. To be included, a country must be a member of the Correlates of War data set as a non–great power member of the nation-state system during the formative event, and must be located in a primary theater of conflict during the formative event (Europe for World War I; Europe, the Middle East, or Southeast Asia for World War II). Additionally, the government must not be a puppet controlled by an outside power. This excludes a number of East European nations after World War II because of Soviet military domination; Greece after World War I because of the 1917 Allied-sponsored coup there; and Greece in the late 1940s because of the extensive American control of politics in Greece until elections were held in 1950. For the post–World War I period, the data set included Albania, Belgium, Bulgaria, Denmark, the Netherlands, Norway, Portugal, Romania, Spain, Sweden, Switzerland, and Turkey. For the post–World War II period, the data set included Australia, Belgium, Denmark, Egypt, Finland, Greece, Iran, Iraq, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Thailand, Turkey, and Yugoslavia.

The learning hypotheses make simple predictions: alliance preferences

[39] Most empirical research in learning focuses on a small group of cases, including May (fn. 20); Snyder (fn. 1, 1984 and 1991); Posen (fn. 1); Evangelista (fn. 1); and Khong (fn. 1). In particular, the cases of American and Soviet learning during the cold war are receiving increasing attention. See Breslauer and Tetlock (fn. 2); Michael G. Fry, ed., *History, the White House and the Kremlin* (London: Pinter Publishers, 1991); Manus I. Midlarsky, John A. Vasquez, and Peter V. Gladkov, eds., *From Rivalry to Cooperation: Russian and American Perspectives on the Post Cold War Era* (New York: HarperCollins, 1994). Two studies of learning in world politics using larger samples are Russell Leng, "When Will They Ever Learn?" *Journal of Conflict Resolution* 27 (September 1983); and Paul K. Huth, *Extended Deterrence and the Prevention of War* (New Haven: Yale University Press, 1988).

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for a state for all years following a formative event will be in accordance with the lesson of the formative event. It is necessary, however, to collect more than one observation per minor power per formative event, in order to test for the possibility of variation in alliance policies across time during a postevent period, as well as for variation in the level of threat across time (implying varying balance of threat predictions). The modeling question, then, is: in which years of the post–formative event period should observations be made? The general guideline used for selecting the years of observation was to include years with different levels and sources of threat to provide a richer test of the balance of threat hypotheses. Observation years were spaced apart evenly, and the starting year for each was a few years after the end of the formative event, in order to allow for the staggered emergence of the postwar order. For each case, behavior was coded for about the length of a generation, twenty years, at four points in time: in the post–World War I period, 1921, 1927, 1933, and 1939; in the post-World War II period, 1949, 1955, 1961, and 1967. These years reflect different conditions in the international environment. For the interwar period, 1921 represents both the nadir of German economic and military power and Italy before the rise of Mussolini; 1927 reflects substantial turmoil and instability in the Balkans and the first years of Mussolini's rule; 1933 represents new conditions in the Balkans; and 1939 contains the months before the outbreak of world war. For the postwar period, 1949 represents a Stalinist Soviet Union overshadowing a frantically rebuilding Europe; 1955, a relaxation of the U.S.–Soviet conflict; 1961, increasing tensions between the superpowers due to a number of international crises; and 1967, the start of another thaw in the cold war.

Making observations only for every sixth year might attract the criticism that the validity of the empirical results has been seriously degraded. Given the need to collect data to catch variations in the level of threat, there is an argument for collecting data for every time period for which data is available. For this model, that would be yearly, as the threat hypotheses are operationalized using annual defense spending figures. Observations were taken several years apart, however, because there are good reasons to suspect positive autocorrelation, due to institutional inertia, in codings of alliance preferences for successive years; putting gaps between observation years ought to diminish substantially the distortional effects of such autocorrelation.[40] Left unaddressed, this autocorrelation might artificially inflate the apparent power of learning theory, because the continuity in alliance preferences predicted by learning theory might be boosted by the autocorrelation.

[40] Autocorrelation means that there is a systematic relationship between the dependent variable at time t and the dependent variable at time t-1.

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Additionally, inclusion of more and more observation years per country diminishes the credibility of the claim that each of the observation years is a separate case, as the observation years would be so close together in time that they would become less and less separate phenomena, thereby artificially increasing the size of the data set and potentially distorting empirical results. Significantly, reducing the amount of time between observation years (and thereby increasing the number of observations) would not introduce much new information to the analysis, as the observation years chosen catch all of the direct and systemic threats as well as all of the minor power preferences for great power alliances that occur during the time period under examination—there are no one-year blips of threat or alliance preference that fall between observation years. Given that the degree of the autocorrelation can only be guessed at and is likely to vary from case to case, I preferred to forgo a formal test of the hypothesis that the dependent variable is autocorrelated (such as putting a lagged dependent variable on the right-hand side of the equation); instead I space out the observation years to reduce the distorting effects of autocorrelation and improve confidence in the model's estimates. In any event, discovering autocorrelation would not have clear implications, since the learning hypotheses themselves predict very high autocorrelation; as lessons are drawn only from formative events, states follow the same lesson in the years following the formative event—meaning that learning would predict that the dependent variable should not change across time for a single country. Therefore, if autocorrelation in the dependent variable was found, it would be very difficult to know whether it was due to institutional inertia or because states were acting in accordance with the learning hypothesis and therefore were learning only infrequently. As a check on the possibility that an interval of six years between observations diminishes inertia insufficiently to leave the empirical results undistorted, analysis will also be performed on versions of the data set that put more time between observations, so as to reduce further the effects of possible institutional inertia. In sum, though the model does not provide a test of the hypothesis that the dependent variable is autocorrelated, it provides rigorous tests of the realist and learning hypotheses that were reasonably unbiased from autocorrelation and that extract as much information as possible from the records of history without distorting conclusions by substantially inflating the data set.[41]

Operationalization of the Hypotheses

This section lays out the equation and its components, explaining the oper-

[41] This technique is known as systematic sampling. John R. Freeman, "Systematic Sampling, Temporal Aggregation, and the Study of Political Relationships," in J. A. Stimson, ed., *Political Analysis* (Ann Arbor: University of Michigan Press, 1990).

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ationalizations and coding rules for the variables. The dependent variable is dichotomous, coded 1 if the minor power preferred a mutual alliance with a great power (following the Correlates of War list of great powers) that committed the parties to military action (as opposed to nonaggression treaties or agreements to consult in the event of war) during the year in question, and coded 0 if not.[42] Since the dependent variable is dichotomous, a logit method of estimation is used. The logit equation to be estimated is presented first to give the reader something to refer to in the explanations of the specific variables that follow.

$$\Pr(\text{prefer alliance}) = 1/(1 + e^{-X\beta}) \qquad (1)$$

$$X\beta = K + \beta 1(\text{INDL}) + \beta 2(\text{SYSL}) + \beta 3(\text{DTMB}) + \beta 4(\text{DCOM}) + \beta 5(\text{STRS}) + \beta 6(\text{STRS})(\text{GEOG}) + \beta 7(\text{STMB}) + \beta 8(\text{STMB})(\text{GEOG}) + \beta 9(\text{SCOM})$$

The abbreviations for the equations and the ensuing Tables are as follows:

Pr (prefer alliance) is bounded at 0 and 1, though the actual codings are either 0 or 1
K = constant
INDL = individual learning variable (dichotomous)
SYSL = system learning variable (continuous, bounded at 0 and 1)
DTMB = direct threat military balance (continuous, with a lower bound of 0)
DCOM = amelioration of direct threat military balance from commitments other than great power alliances (continuous, with a lower bound of 0)
STRS = for systemic threat, revisionist share of great power resources (continuous bounded between 0 and 100)
STMB = systemic threat military balance between revisionist and minor powers (continuous, with a lower bound of 0)
GEOG = geographical exposure variable (dichotomous)
SCOM = amelioration of systemic threat military balance from nonalliance great power commitments (continuous, with a lower bound of 0)

Hypothesis 1—the individual learning hypothesis—was expressed as a dichotomous variable, INDL, and coded 1 if the lesson advocated alliance (if the country was allied and succeeded, or was neutral and failed) it was coded 0 if the lesson advocated neutrality (if the country was allied and failed, or if it was neutral and succeeded). Hypothesis 1 proposes that $\beta 1$

[42] Coding for the dependent variable was made on the basis of primary and secondary historical sources. The absence of alliance between a minor power and any great power does not necessarily indicate the preference on the part of the minor power for neutrality; the minor power may prefer great power alliance, but there is no willing great power. In such a case, the dependent variable was coded as 1.

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will be positive. Hypothesis 2 posits that each formative event provides one systemwide lesson on great power alliances that is followed by each minor power. The content of the lesson is determined by the collective experiences of all the relevant minor powers in that formative event. This variable, SYSL, is a number from 0 to 1 that indicates the content of the lesson—the extent to which it advocates neutrality or alliance. A value of 0 would be the strongest lesson for neutrality, a value of .5 would indicate a lesson favoring neither, and a value of 1 would indicate the strongest advocacy for great power alliance. The fraction is constructed as follows:

$$\text{SYSL} = \frac{(\text{sum of failed neutral and successful allied minors for that event})}{(\text{number of minors for that event})} \quad (2)$$

For World War I, there were two failed neutrals and two successful allied nations out of a total of twelve nations, producing a systemwide learning fraction of .33 for interwar cases. This is a lesson moderately favoring neutrality. For World War II, there were nine failed neutrals and four successful allied states out of a total of twenty nations, producing a value of .65 for post–World War II cases. This is a lesson moderately favoring great power alliance. Hypothesis 2 proposes that $\beta 2$ will be positive.

The realist hypotheses are more difficult to operationalize. Since the hypotheses aim to test the validity of the balance of threat variety of realism, the basic objective is to construct acceptable measurements of threat. Generally speaking, both intentions and capability are necessary components of a threat; a simple relation might be that intentions and capabilities are multiplied together to construct composite threat, expressing the notion that a very powerful but friendly country poses no threat (as a large capability index times an aggressive intentions index of zero equals a composite threat of zero), and that a fiercely aggressive but small country poses little threat (a high aggressive intentions index times a low capabilities index equals a low composite threat).[43]

Of these two components of threat, the presence of a threatening intent is more difficult to measure. Concerning direct threats, a minor power was considered threatened if one or more other powers (minor or great) presented demands for the revision of territorial borders or challenges to the sovereignty of the ruling government of the target in the year in question or in the previous year, and if the target perceived these demands to carry the risk of military conflict in the near future. Lesser threats to sovereignty, such as economic penetration, are excluded, as responses other than military alliance are more appropriate. One way to capture this balance is to use the ratio of military spending of the threatener(s) to the threatened,

[43] Walt (fn. 31), 21–26.

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where the ratio is 0 if there is no threat.[44] However, there is probably a diminishing return to increases in fear from increases in capability; for example, the level of fear may double as the ratio increases from 2:1 to 4:1, but it is not likely to double as the ratio increases from 100:1 to 200:1. A simple transformation indicating diminishing marginal returns but maintaining monotonicity is to take the square root of this military spending ratio. This square root is DTMB, and Hypothesis 4 predicts that $\beta 3$ will be positive. A separate value for the testing of Hypothesis 4a, DCOM, consists of the amelioration of the direct threat military balance offered by minor power alliances and nonalliance commitments from great powers. The amelioration of this threat is also calculated using defense spending data. Hypothesis 4a predicts that this coefficient, $\beta 4$, will be negative.[45]

A systemic threat is posed to the international system by a revisionist great power. The first task in building a measure of systemic threat is to assess the perceived likelihood of imminent great power war. This was coded as a dichotomous variable: if a great power initiated a militarized crisis with another great power or with a regional ally of another great power in the year of observation or the previous year, then all minor powers in that region during the observation year will be considered to perceive that this is a potentially revisionist great power, and that the possibility of an imminent great power war is high. For the post–World War I years, Germany qualifies as a perceived potential revisionist in 1939 because of its annexation of the Sudetenland in 1938 and its invasion of Czechoslovakia in 1939. The Soviet Union qualifies as a perceived potential revisionist in Europe in 1949 because of the Berlin blockade, and in 1961 because of the Berlin deadline crisis. China counts as a potential revisionist in East Asia in 1955 because of its actions and threats against the American ally Taiwan. If a great power war is perceived as imminent because of such a militarized crisis, then it is assumed that minor powers will perceive the probability of an actual outbreak of war to depend on the relative share of great power capabilities held by the potential revisionist, since a greater share of great power resources gives the revisionist a better chance of winning, hence increasing the chances that systemic war will break out. For each of the potential great power revisionists, the average of the revisionist's share of each of the Correlates of War's six measures of material capabilities among the great powers—military spending, military troop levels, total popula-

[44] Correlates of War data on military spending were used. Using troop levels is problematic for small powers, as some countries rely on reserve or militia forces for defense. It is difficult to assess the contribution of these forces except on a case by case basis, because the quality of these forces and the speed with which they could be committed to the national defense vary widely.

[45] The military forces from other countries commited to the security of the defender need to be considered separately from the defender's own military forces, because the ally cannot commit all of its forces to help the defender since it has to defend its own territory as well as that of the defender.

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tion, urban population, energy consumption, and iron and steel consumption[46]—was recorded as STRS. Hypothesis 3 proposes that this measure is positively correlated with the probability that the minor power will prefer alliance, predicting therefore that β5 will be positive. Hypothesis 3a predicts that the weaker the minor power feels relative to the revisionist, the more likely the minor is to seek alliance with a great power. Relative strength was measured by taking the square root of the ratio of the revisionist's military spending to that of the minor power to create STMB. Hypothesis 3a predicts that β7 will be positive. Hypothesis 3b predicts that geographic exposure to a systemic threat increases the probability of preferring alliance. This idea is operationalized as a dummy variable. If a great power lies between the minor power and the potential revisionist, then the minor is coded as unexposed, and the exposure variable, GEOG, is coded as 0; otherwise, the minor power is exposed, and GEOG is coded as 1. GEOG is included as an interactive term with the resource share and revisionist military balance variables, as realism would predict that if a minor power is geographically exposed, it will feel more threatened by a more powerful revisionist. Therefore, Hypothesis 3b predicts that β6 and β8 will be positive. Nonalliance great power defense commitments to the minor power that ameliorate the systemic threat are reflected in SCOM, which is measured using the same method as DCOM, only in reference to systemic threats. Hypothesis 3c predicts that SCOM will be negative.

Empirical Results

The results of the logit analysis of equation 1 are shown in Table 1. Overall, the equation does quite well in predicting the alliance choices of states. In 90 percent of the cases, the model correctly predicted alliance choices. More specifically, Table 1 indicates that both the individual and the systemic learning variables, INDL and SYSL, have statistically significant impacts on the dependent variable. Discerning the individual effects of these two variables is a slightly more difficult task, however. The apparent substantive and statistical significance of the systemic variable can be misleading, since, if decision makers learned only according to their own lessons and not at all by systemic lessons, then the empirical results would still show the predictions of the systemic learning variables as doing well, because a systemic lesson is composed of individual lessons. For example, if systemic learning had no real effect and half of the individual lessons were for neutrality, it would appear that systemic learning would be having some effect because half of the sample was, as predicted, preferring neu-

[46] On these measures, see J. David Singer, S. Bremer, and J. Stuckey in Bruce Russett, ed., *Peace, War, and Numbers* (Beverly Hills, Calif.: Sage, 1972).

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TABLE 1[a]
LOGIT ESTIMATION OF THE CAUSES OF MINOR POWER ALLIANCE CHOICES AFTER WORLD WARS I AND II

Variable Name	*Estimated Coefficient*	*Standard Error*	*Significance Level*
Learning			
INDL	4.80	0.796	<0.0005
SYSL	5.78	2.37	0.008
Direct threat			
DTMB	−0.0119	0.155	—
DCOM	−0.111	0.189	—
Systemic threat			
STRS	0.0784	0.0496	0.06
STRS*GEOG	−0.192	0.0725	0.01[b]
STMB	−0.0467	0.0395	—
STMB*GEOG	0.227	0.112	0.02
SCOM	−0.659	1.23	—
Constant	-5.07	1.42	<0.0005
n=127			
Log-likelihood (0)	−87.387		
Log-likelihood function	−36.102		
Likelihood ratio test	103.470 with 9 D.F.		

	Prediction Success		
	Actual Number of Cases	Correctly Predicted	Percentage
Outcome 0 (preferred not to ally)	60	53	88
Outcome 1 (preferred to ally)	67	61	91
Total	127	114	90

[a]Abbreviations used in this table can be found on page 508.
[b]The sign of the estimate is not in the predicted direction, but is statistically significant at the .01 level for a two-tailed significance test. All other significance tests are one-tailed.

trality, though systemic experiences had been irrelevant to the forming of preferences. Such a phenomenon is not inconceivable with this data set: for post–World War I cases, 23 percent of the nations preferred alliance, and the systemic learning variable was coded as .33; for post–World War II cases, 68 percent of the nations preferred alliance, and the systemic learning variable was coded as .65.

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One way to separate out the effects is to see if the individual learning hypothesis is successful at predicting individual cases, particularly for those nations that had preferences in opposition to the systemic lesson derived from the formative experience. The empirical results point to individual learning as a powerful explanation of the dependent variable—by itself, the individual learning variable correctly predicts 111 out of 127 cases, as compared with the entire model correctly predicting 114 correctly, and the systemic learning variable alone predicting 89 cases correctly. Further, of the cases for which the predictions of individual learning were at odds with those of systemic learning (40 cases), the individual learning variable correctly predicted 80 percent of these cases against 20 percent for the systemic learning variable. Therefore, individual learning appears to be more dominant than systemic learning in decision makers' thinking about the costs and benefits of neutrality and alliance, meaning that the data provide strong empirical support for Hypothesis 1 and more qualified support for Hypothesis 2.

The estimates for the direct threat variables (DTMB and DCOM) are clearly not statistically significant, leading to the conclusion that Hypotheses 4 and 4a ought to be rejected. Of the systemic threat variables, the military balance variables appear to have little substantive if limited statistical significance; likelihood ratio tests reveal that the two systemic threat military balance variables (STMB and GEOG*STMB) and the direct threat variables add so little to explaining the dependent variable that they can be justifiably excluded.[47] Another such test reveals that inclusion of the systemic threat resource share (STRS and GEOG*STRS) and strategic threat commitment (SCOM) variables is justified.[48] As displayed in Table 2, logit analysis of a model excluding these four variables offers essentially similar results as the logit analysis of equation 1. The high standard error for the estimate of SCOM offers evidence against Hypothesis 3c. As predicted, states that are geographically unexposed to a systemic threat are more likely to prefer alliance with a great power than if there was no systemic threat, and the greater the resource share of the revisionist power, the greater the likelihood that they will prefer such an alliance (a caveat to this finding is that the estimate has only moderate statistical significance, at the .06 level). However, if the threatened minor

[47] The likelihood ratio test statistic (LRTS) is twice the difference of the log likelihood values for the restricted and unrestricted model specifications. In this case, that value is 5.39, which is greater than the critical value for .20 in a chi-squared distribution, meaning that we can conclude with confidence that there is little systematic relationship between these four variables (STMB, GEOG*STMB, DTMB, and DCOM) and the dependent variable. On this test, see Gary King, *Unifying Political Methodology* (Cambridge: Cambridge University Press, 1989).

[48] The LRTS for comparing the model in equation (1) with a model including just the two learning variables in 14.8, which is significant at the .05 level with 7 degrees of freedom.

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TABLE 2[a]
LOGIT ANALYSIS OF ALLIANCE CHOICES EXCLUDING STRATEGIC THREAT MILITARY BALANCE VARIABLES

Variable Name	*Estimated Coefficient*	*Standard Error*	*Significance Level*
Learning			
INDL	4.29	.650	<.0005
SYSL	4.72	2.12	.02
Systemic threat			
STRS	.0422	.0327	.10
STRS*GEOG	−.0736	.0385	.06[b]
SCOM	−.542	.747	—
Constant	−4.39	1.23	<.0005
n=127			
Log-likelihood (0)	−87.387		
Log-likelihood function	−38.797		
Likelihood ratio test	98.0798 with 5 D.F.		

	Prediction Success		
	Actual Number of Cases	Correctly Predicted	Percentage
Outcome 0 (preferred not to ally)	60	53	88
Outcome 1 (preferred to ally)	67	60	89.5
Total	127	113	89

[a]Abbreviations used in this table can be found on page 508.
[b]The sign of the estimate is not in the predicted direction, but is statistically significant at the .06 level for a two-tailed significance test. All other significance tests are one-tailed.

power is geographically exposed to the systemic threat (74 percent of those states facing a systemic threat were coded as being geographically exposed), then the net effect (.0422 − .0736 = −.0314) is for the threatened minor power to be *less* likely to prefer alliance with the great power than if there is no systemic threat. This is strong evidence against Hypothesis 3b, and in opposition to the predictions of balance of threat theory. Further, as the revisionist's share of great power resources increases, the chances of the minor power preferring neutrality increase even further, again in opposition to the predictions of balance of threat theory. These findings are not dismissable as stochastic hiccups—again, a likeli-

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hood ratio test supports the inclusion of the strategic threat resource share and commitment variables, STRS, GEOG*STRS, and SCOM. The real effect in this sample, then, is that for geographically exposed states, the presence of a systemic threat decreases the likelihood that a minor power will prefer alliance. Certainly, this is a finding at odds with the predictions of balance of threat theory, which proposes that status quo states will tend to ally together to balance against a state bent on systemic hegemony or territorial expansion. It would seem to offer support to the argument that, ceteris paribus, minor powers are more likely to follow the logic of buck-passing than that of balancing or bandwagoning.

The next task is the determination of the relative magnitudes of the effects of learning and threat. Direct comparison of coefficient estimates as a means of assessing explanatory power is difficult in this case, given the logit form of the model and the variety of units used in measurement. A more fruitful approach is to think specifically about the predictions of the two theories under examination. Balance of threat theory predicts that in a high-threat environment, a state will be more likely to choose alliance rather than neutrality regardless of its lesson, and in a low-threat environment, a state will be more likely to choose neutrality rather than alliance regardless of its lesson. Buck-passing logic agrees that the presence of threat is the key external variable determining alliance choices, but proposes that alliances are likely to break apart as threats appear. Learning theory, on the other hand, predicts that regardless of the level of external threat, a state is likely to choose alliance if its lesson advocates alliance and likely to choose neutrality if its lesson advocates neutrality. These propositions can be tested by comparing the predicted values for the dependent variable at high and low levels of threat and for lessons of alliance and neutrality. The focus here will be on individual learning, since that appears to be the more powerful of the two learning explanations, and on systemic threat, as the direct threat variables have no statistically significant effect. Only the systemic threat resource share variable will be examined, as the systemic threat military balance variable was found to be not systematically related to the dependent variable. In order to assess how predictions for the dependent variable change as the values for individual learning and systemic threat resource share change, the other independent variables need to be held constant. The comparison will assume that there is no direct threat, and the systemic learning value will be set at .5, the indifference point (again, a value of 1 would mean that the systemic lesson strongly favors alliance, whereas a value of 0 would mean that the systemic lesson strongly favors neutrality). The analysis compares five different systemic threat environments, in all of which the minor power is assumed to

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have been geographically exposed: the 1939 Nazi German threat, the 1949 Soviet threat, the 1955 Chinese threat, the 1961 Soviet threat, and an environment of no threat. For each of these environments, the predictions for the dependent variables are compared for the case of an individual lesson favoring neutrality and an individual lesson favoring alliance. These predictions are presented in Table 3.

As predicted by learning theory, the likelihood of a state choosing alliance or neutrality is strongly determined by the nature of the individual lesson, and the level of systemic threat has only marginal effects on this variable. Confidence that formative experiences determine how minor powers come to decide between alliance and neutrality is bolstered by the high rate of accuracy of the individual learning hypothesis in predicting the dependent variable for the entire data set (87 percent). The realist prediction that the level of threat alone strongly determines the alliance/neutrality choice of a state is not confirmed by the data. The individual learning variable, therefore, has a high degree of substantive significance in relation to balance of threat theory, as well as a high level of statistical significance. This comparison illustrates that the data indicate high empirical support for Hypothesis 1 and no empirical support for Hypothesis 3, as the observed, marginal effect is not in the predicted direction. The result does point to a small tendency for minor powers to follow buck-passing logic rather than to balance or bandwagon in the face of threat, formative experiences aside.

TABLE 3
PREDICTIONS OF MINOR POWERS' ALLIANCE CHOICES GIVEN DIFFERENT LEVELS OF SYSTEMIC THREAT AND DIFFERENT INDIVIDUAL LESSONS[a]

Year	*Systemic Threatener (Resource Share)*		*Predicted probability of choosing alliance with an individual lesson of neutrality* (INDL = 0)	*Predicted probability of choosing alliance with an individual lesson of alliance* (INDL = 1)
1939	Germany	(23.4)	.060	.816
1949	USSR	(34.9)	.042	.754
1955	PRC	(20.4)	.065	.829
1961	USSR	(28.3)	.051	.791
—	No Systemic Threat	(0)	.117	.902

[a]Table entries are predicted values for y, calculated based on coefficient estimates in Table 2.

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A possible criticism of the data set discussed earlier is that by taking a number of observations for the period following each formative event, the estimated strength of individual learning is inflated. If decisions about whether to be allied or remain neutral are not taken as frequently as every six years, this might mean that inertia rather than adherence to a lesson was causing the continuity in a state's alliance choices. One way to test for this possibility is to split up the data set: if there is such inflation when observations are made for behavior at six year intervals, then breaking up the data set so as to increase the span of time between observations ought to deflate the estimated strength of the individual learning variable. Table 4 compares the coefficient estimates and standard errors for regressions of the full data set (for observations taken in the years 1921, 1927, 1933, 1939, 1949, 1955, 1961, and 1967) with separate regressions for each half or quarter of the data set. In one half, observations were taken for 1921, 1933, 1949, and 1961; and in the other they were taken for 1927, 1939, 1955, and 1967. For quarters of the data set, separate analyses were conducted on observations for the years 1921–49, 1927–55, 1933–61, and 1933–67. This last test on quarters of the data set is an especially good one for the hypothesis that institutional inertia may be inflating the results, since it examines only one observation per country per formative event, removing completely the possible effects of institutional inertia.

As Table 4 clearly indicates, similar empirical conclusions as to the importance of the learning variables and the insignificance of the threat variables can be drawn when the data set is split into halves or quarters. The individual learning hypothesis is the only variable whose coefficient estimate remains relatively stable and retains a very high degree of substantive and statistical significance across all permutations of the data set, including all four runs in which only one observation was made per country per formative event. Institutional inertia, then, is not artificially inflating the estimated importance of the individual learning variable.

Another possible criticism of the data set is that the Soviet Union actually posed a systemic threat to Europe throughout the cold war, and that by counting only the late 1940s and early 1960s as years of Soviet threat, an artificially low estimate of the effect of systemic threat is produced. One way to explore this possibility is to reconfigure the data set with the assumption that the Soviet Union posed a systemic threat to Europe in each of the post–World War II observation years. Table 5 presents the results of such an analysis, comparing these results to those reached with the assumption that there was a Soviet threat only in the late 1940s and early 1960s. As is evident in Table 5, coding the USSR as a threat to Europe from the late 1940s through the late 1960s does not alter the conclusions that learning is still the dominant explanation of the

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TABLE 4[a]

SENSITIVITY ANALYSES OF LOGIT ESTIMATES FOR ALLIANCE CHOICES VARYING THE TIME BETWEEN OBSERVATIONS[b]

Variable	*(1)*[c]	*(2)*[d]	*(3)*[e]	*(4)*[f]	*(5)*[g]	*(6)*[h]	*(7)*[i]
Learning							
INDL	4.80[n]	9.45[l]	4.28[n]	4.19[l]	4.07[m]	5.82[m]	4.47[m]
	(.796)	(4.22)	(.952)	(1.78)	(1.35)	(1.97)	(1.52)
SYSL	5.78[m]	23.0[j]	4.31	11.77[j]	4.78	2.39	−.169
	(2.37)	(13.8)	(3.91)	(6.08)	(4.32)	(7.26)	(10.9)
Direct threat							
DTMB	.0119	−.233	.440	−.258	.437	1.10	.170
	(.155)	(.412)	(1.07)	(.202)	(1.27)	(6.01)	(.944)
DCOM	−.111	−.037	−.166	−.434	.0305	−.788	—
	(.189)	(.439)	(1.44)	(2.02)	(2.05)	(6.75)	—
Systemic threat							
STRS	.0784[j]	.0837	−.067	—	—	—	—
	(.0496)	(.0755)	(.127)				
G*STRS	−.192[o]	−.399[o]	—	—	—	—	—
	(.0725)	(.219)					
STMB	−.047	−.109	−.0265	−.0547	8.74	.0648	.00575
	(.0395)	(.0727)	(.178)	(.0951)	61200	(.0751)	(.285)
G*STMB	.227[l]	.411	—	.0151	—	−.131	−.00714
	(.112)	(.324)		(.0959)		(.141)	(.196)
SCOM	−.659	—	-.862	—	—	—	−.780
	(1.23)		(2.02)				(1.23)
Constant	−5.07[n]	−15.0[k]	−4.39[k]	-7.62[l]	−4.40[m]	−4.42	−1.80
	(1.42)	(8.84)	(2.41)	(3.70)	(2.57)	(3.76)	(6.67)
n	127	63	64	31	32	32	32
Log-likelihood (0)	−87.8	−43.6	−22.2	−21.5	−21.9	−22.1	−22.2
Percentage correct for model	88	90	88	90	91	94	91
Percentage correct for INDL	87	87	88	81	91	94	84

[a]Abbreviations used in this table can be found on page 508.

[b]Entries in rows with equation terms are coefficient estimates; numbers in parentheses are standard errors.

[c]Years of observation: 1921, 1927, 1933, 1939, 1949, 1955, 1961, 1967.

[d]Years of observation: 1921, 1933, 1949, 1961.

[e]Years of observation: 1927, 1939, 1955, 1967

[f]Years of observation: 1921, 1949.

[g]Years of observation: 1927, 1955.

[h]Years of observation: 1933, 1961.

[i]Years of observation: 1939, 1967.

[j]Significant at the .10 level.

[k]Significant at the .05 level.

[l]Significant at the .025 level.

[m]Significant at the .01 level.

[n]Significant at the .0005 level.

[o]The sign of the estimate is not in the predicted direction, but estimate is statistically significant at the .10 level or higher for a two-tailed significance test. All other significance tests are one-tailed.

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TABLE 5[a]
SENSITIVITY ANALYSIS OF LOGIT ESTIMATES FOR ALLIANCE CHOICES USING DIFFERENT ASSUMPTIONS ABOUT THE LEVEL OF SOVIET THREAT[b]

	Variables			
	Standard Data Set[c]		*Modified Data Set*[d]	
Learning				
INDL	4.80	(.796)[j]	4.66	(.770)[j]
SYSL	5.78	(2.37)[h]	6.93	(2.62)[i]
Direct threat				
DTMB	0.012	(.155)	-0.0307	(.159)
DCOM	-0.111	(.189)	-0.114	(.193)
Systemic threat				
STRS	0.078	(.050)[e]	-0.0174	(.0389)
STRS*GEOG	-0.192	(.072)[k]	-0.111	(.0577)[k]
STMB	-0.047	(.040)	-0.0040	(.0383)
STMB*GEOG	0.227	(.112)[g]	0.182	(.109)[f]
SCOM	-0.659	(1.23)	0.638	(1.23)
Constant	-5.07	(1.42)[j]	-5.20	(1.42)[j]
Percentage of correct predictions	90		89	
n=127				

[a]Abbreviations used in this table can be found on page 508.
[b]Table entries are coefficient estimates, with standard errors in parentheses.
[c]Systemic Soviet threat coded as present in 1949 and 1961.
[d]Systemic Soviet threat coded as present in 1949, 1955, 1961, and 1967.
[e]Significant at the .10 level.
[f]Significant at the .05 level.
[g]Significant at the .025 level.
[h]Significant at the .01 level.
[i]Significant at the .005 level.
[j]Significant at the .0005 level.
[k]Sign of the estimate is not in the predicted direction, but estimate is statistically significant at the .06 level or higher for a two-tailed significance test. All other significance tests are one-tailed.

dependent variable, that external threat has only marginal effects on the dependent variable, and that those effects may in fact be in the opposite direction to that predicted by balance of threat theory.

DISCUSSION

The strong conclusion of the empirical tests is that individual experiences are powerful determinants of alliance preferences, and that variations in external threat, in contrast to the predictions of balance of threat realism, have very little effect. Further, the marginal effect observed is opposite to

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that predicted by balance of threat theory, suggesting that minor powers tend to follow buck-passing/neutrality logic more frequently than balance/bandwagon logic. These findings are in contrast to those of some other quantitative works on alliances that emphasize the strong effects of changes in the international environment on alliance policy.[49] There are a number of possible explanations for this discrepancy in results. First, many of these studies used a different coding scheme for evaluating international threats, often relying on Bruce Bueno de Mesquita's model, which equates security with a nation's utility for war.[50] Second, this is the first quantitative analysis to compare the predictions of realism with learning—many of the other studies tested only realist hypotheses. Last, other alliance research has executed tests that are less direct than those in this article, meaning that their dependent variables were slightly different.

An important caveat to this finding is that this paper presents only a limited test of balance of threat theory. The dependent variable is a major shift in foreign policy toward or away from formal military alliance; it is limited to minor-great power alliances; and the independent variables for threat measure only relatively high threats, the appearance of imminent great power war, or an intense local conflict threatening international war. Threats, balancing, and bandwagoning may occur in smaller increments, as states worry about and react to lesser threats, and may take steps short of entering a defense pact in order to address an emerging threat. However, a danger attending the coding of small changes in threat and alliance policy is that it can make balance of threat theory difficult to falsify. There is always threat to be found if one looks hard enough, and most diplomatic actions are in some sense balancing or bandwagoning, as they either strengthen or weaken ties with other nations. Therefore, though the test of balance of threat theory in this paper is limited, this limitation is necessary to keep the hypotheses easily falsifiable.

Learning and Regional Alliance Patterns

Individual learning correctly predicts many regional patterns of alliance

[49] See Altfeld (fn. 33); Lalman and Newman (fn. 33); Berkowitz (fn. 33). Lalman and Newman propose that a different global distribution of power encouraged a greater propensity to ally after World War II than after World War I. The learning hypothesis argues that this greater tendency was due to the individual experiences of states in wartime and is preferable to the distribution of global power explanation because it accounts for decisions of individual states for alliance or neutrality as well as for systemwide patterns.

[50] Bruce Bueno de Mesquita, *The War Trap* (New Haven: Yale University Press, 1981). This paper used an alternative method of directly measuring external threats for two reasons. First, utility for war is an imprecise conceptual proxy for security, partly because it implies that a state is more secure the more it stands to gain from the prosecution of war. Second, Bueno de Mesquita's method uses alliances to predict foreign policy preferences, raising falsifiability concerns for an application here, given that alliances would be used as both dependent and independent variables.

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and neutrality. All three of the Southeast Asian nations in the data set—Australia, New Zealand, and Thailand—preferred alliance after World War II, though China did not pose a real threat to any of them at that time, with the exception of China's direct confrontations with the United States in the 1950s. These commitments to alliance were driven directly by the nations' formative World War II experiences. To take one example, the 1941 Japanese invasion had a great impact on Thai foreign policy after the war:

> The crisis of 1941 is the key to understanding Thai attitudes towards SEATO. Thailand entered SEATO in order to avoid being left once more at the mercy of an overpowering enemy, defenceless and without allies. Thailand entered SEATO, too, in order to reaffirm and reinforce its links with the United States and the United Kingdom, the two great powers which, despite their interest in the country's independence, did at the crucial moment shrink from entering an all-out war on Thailand's behalf because they had assumed no prior commitments to come to its assistance. And the continuing aim of Thai diplomacy is to secure a situation in which the intervention of the Western great powers on its side is never left in doubt. On its own side, Thailand had to learn that the policy of neutrality has proved unsuccessful, and that a policy of playing with both sides was not ultimately satisfactory. To expect reliable assistance, one has to be reliable oneself.[51]

In Europe, individual learning explains the peculiar checkerboard patterns of neutrality and alliance since World War I. Consider Switzerland, the Netherlands, and Belgium: these three West European countries were quintessential nineteenth-century neutrals, and all of them attempted neutrality in World War I. Neutral Belgium was invaded in 1914, an experience that played a key role in causing it to revamp its foreign policy toward alliance and away from neutrality after the war. Switzerland and the Netherlands emerged from the war unscathed, reinforcing their neutral orientations. All three again attempted neutrality in World War II, and the two that were invaded, Belgium and the Netherlands, joined NATO after the war; while Switzerland, which had successfully avoided involvement in the war, remained neutral. Historians point to the various individual experiences in the two world wars as central in driving each state's alliance preferences.[52] Balance of threat theory, on the other hand, would predict that

[51] George Modelski, "The Asian States' Participation in SEATO," in George Modelski, ed., SEATO: *Six Studies* (Melbourne: F. W. Cheshire, 1962), 90–91.

[52] On Belgium, see Jonathan Helmreich, "The Negotiation of the Franco-Belgian Military Accord of 1920," *French Historical Studies* 3 (Spring 1964); and Paul-F. Smets, ed., *La pensée européenne et atlantiques de Paul-Henri Spaak (1942–1972)*, 2 vols. (Brussels: J. Goemere, 1980). Belgium broke off its alliance with France in 1936 due primarily to an array of domestic political factors. Of course, this case constitutes a failure for both learning hypotheses. On the 1936 break, see David O. Kieft, *Belgium's Return to Neutrality* (Oxford: Clarendon Press, 1972). On Switzerland, see Jacques Freymond, "The Foreign Policy of Switzerland," in *Foreign Policy in a World of Change* (New York: Harper and Row, 1963), 151–52. On the Netherlands, see Amry Vandenbosch, *Dutch Foreign Policy since 1815* (The Hague: Martinus Nijhoff, 1959), 289. A more extensive discussion of these and other cases is present-

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the three states would seek alliance in the late 1930s, since all lay on potential invasion routes between Germany and France and would balance against or bandwagon with the provocative Soviet Union of the late 1940s and early 1960s.

Another interesting checkerboard of alliances and neutrality is Scandinavia. Experiences of successful neutrality for Denmark, Sweden, and Norway in World War I reinforced their traditional adherence to neutrality, a commitment that lasted through the late 1930s in the midst of a mounting German threat.[53] However, the two nations that experienced failed neutrality in World War II, Denmark and Norway, abandoned their long traditions of neutrality to join NATO. One historian argued that the strong impacts of these divergent experiences determined the eventual collapse of the negotiations for a Scandinavian Defense Union (SDU) as well as the Norwegian and Danish decisions to join NATO and the Swedish decision to remain neutral:

> Divergent wartime experiences played a significant role in the SDU negotiations and clearly affected the outcome of the negotiations between Sweden and Denmark. For Sweden there was little reason to change a successful foreign policy that had served her well since the Napoleonic wars. Danish and Norwegian neutrality, however, was shattered by the German attack on 9 April 1940, and the event raised serious doubts as to the desirability of continuing the old policy. Oslo and Copenhagen feared a repetition of April 1940, this time with the Soviet Union as aggressor. The Swedish political scientist Krister Wahlbäck addresses much attention to what he calls the 9 April syndrome.[54]

Conversely, escaping involvement in World War II cemented Sweden's commitment to neutrality after 1945, in spite of the failed neutrality of its two Nordic neighbors:

> Again, this rejection [of alliance] was neither due to any doctrinaire belief in neutrality, nor to a lack of sympathy with the West, but was based on historical experience and an evaluation of the situation prevailing within the country at the time. . . . Whether or not her neutrality was the sole reason Sweden was spared during two world wars or was merely incidental, it has nevertheless exerted a powerful influence on the Swedish people. Public opinion and all the country's democratic parties regard it as self-evident

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ed in Dan Reiter, "Learning, Realism, and Alliances: An Empirical Examination of the Causes of Alliances" (Ph.D. diss. University of Michigan, 1994).

[53] F. A. Abadie-Maumert, "Le pacifisme norvégian entre 1919 et 1940 et ses conséquences," *Guerres mondiales et conflits contemporains* 40 (October 1990); Fox (fn. 29), 81, 111–12; T. K. Derry, *A History of Modern Norway, 1814–1972* (Oxford: Clarendon Press, 1973), 415; Nils Örvik, *Trends in Norwegian Foreign Policy* (Oslo: Norwegian Institute of International Affairs, 1962), 6, 12; Samuel Abrahamsen, *Sweden's Foreign Policy* (Washington, D. C.: Public Affairs Press, 1957), 14.

[54] Gerald Aalders, "The Failure of the Scandinavian Defence Union, 1948–1949," *Scandinavian Journal of History* 15 (1990), 133–34. Nazi Germany invaded Norway and Denmark on April 9, 1940.

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that this historically proven concept should continue as a fundamental national policy.[55]

Additionally, the single Scandinavian nation that was allied during World War II, Finland, experienced failure and opted for neutrality after the war. Realism does not successfully predict the Scandinavian checkerboard of alliances, since the geostrategic similarity of the locations of these four nations (all are exposed to Soviet military might and would be located on the northern front of a European conflict) would lead to a balance of threat hypothesis prediction that all four would either balance against or bandwagon with the Soviet threat. Only the individual learning hypothesis successfully explains the variety of individual decisions made by the Scandinavian nations.

These cases also reveal that states learn about an aspect of foreign policy not included as a dependent variable in the quantitative analysis—the level of domestic armament. Norway's belief that a large military was not necessary to ensure the country's security was confirmed by its successful World War I experience and was reversed (along with its faith in neutrality) by its World War II experience. Sweden and Switzerland, on the other hand, drew the lesson from World War II that neutrality is only effective if it is coupled with high levels of domestic armament. Though this model did not provide a quantitative test for learning about domestic armament, these observations may offer a useful elaboration of James Morrow's expected utility model of alliances, which sees both arms and alliances as means to increase security, and proposes that the choice of arms or alliances depends on nonsecurity components of the state's utility.[56] The analysis here suggests that a state's choice of its arms/alliance mix is also dependent on its beliefs about the relative contributions of arms and alliances to security, beliefs that emerge from formative experiences.

It is interesting to note that alliance preferences are not well explained by the systemic learning predictions expressed in Hypothesis 2. As the alliance checkerboards in Northern and Western Europe demonstrate, minor powers tend to act in accordance with the lessons offered by their own experiences, rather than to look to the experiences of all states in order to draw wider lessons. This empirical finding adds support to the proposition that states focus on their own national experiences and not on those of other countries.

One set of cases for which the individual learning predictions do not do well is the post–World War II Middle East, in which only some of the individual learning predictions are correct. As predicted, Iraq and Egypt,

[55] Ralston (fn. 29), 209.
[56] Morrow (fn. 33, 1991, 1993).

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as failed allies, eventually steer toward neutrality in the 1950s, but they maintain their preference for alliance in the late 1940s. Walt claimed to find evidence of balancing and bandwagoning behavior in the post–World War II Middle East; this study's coding of threats, though, indicated that in that region preferences for alliance with a great power were not systematically related to the level of external threat. One possible explanation is that since these states are Third World nations, their relative political underdevelopment means that leaders pay especially great attention to domestic political threats and coalitions, implying that a complete model of Third World alliance preference must take account of such factors.[57] Other cases in which individual learning failed as an explanation are postwar Yugoslavia, postwar Spain, Albania in the early 1920s, Turkey just before World War II, Belgium in the late 1930s, and Romania in the early 1920s and late 1930s.[58]

Forming Beliefs about Specific Allies

This article tests the proposition that minor powers draw general lessons about neutrality and alliance. Another possibility is that minor powers instead learn about specific nations as allies. If minor powers did learn about nations, then we would expect that from a formative experience they would draw lessons about which nations are the most valuable allies. Presumably they would want to ally with the victors, would shun alliance with the losers, and would prefer alliance with the victors to neutrality. There are likely to be few lessons about nations from a world war in the sense described above; after a world war, the defeated nations are much less powerful than the victors for at least several years, so it would be uninteresting to predict that minor powers would not ally with the defeated great powers, as alliance with a defeated great power after a world war would run counter to both the learning proposition and realism. Additionally, the historical record indicates that not all minor powers tend to ally with the victor after a world war; some prefer to remain neutral.

A different way to conceptualize learning about specific allies is to examine a different class of formative events, great power militarized crises. If minor powers draw lessons about the resolve of specific, great power allies, then we would expect that after a great power crisis, the allies of the

[57] Steven R. David, "Explaining Third World Alignment," *World Politics* 43 (January 1991); Michael N. Barnett and Jack S. Levy, "Domestic Sources of Alliances and Alignments: The Case of Egypt, 1962–73," *International Organization* 45 (Summer 1991); and idem, "Alliance Formation, Domestic Political Economy, and Third World Security," *Jerusalem Journal of International Relations* 14 (December, 1992).

[58] Curiously, being a nondemocracy seems to be nearly a necessary condition for not behaving as the individual learning hypothesis predicts. For more on this pattern, see Reiter (fn. 52).

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(diplomatically) defeated great power would tend toward neutrality, neutrals would tend toward alliance with the victorious great power, and allies of the victor would not tend toward neutrality or alliance with the defeated power. This argument is most often applied to the reactions following the string of British and French diplomatic defeats in the middle and late 1930s, which included the ineffectually contested Italian invasion of Ethiopia, the German remilitarization of the Rhineland, the German annexation of Austria, the appeasement of Germany at the 1938 Munich conference, and the 1939 invasion of Czechoslovakia. These diplomatic defeats did have some effects on minor power behavior, most notably the crumbling of the Little Entente between France and the East European powers[59] and the shift from some faith in the League of Nations as an effective guarantor of collective security toward more unilateral neutrality on the part of several neutrals.[60] Elsewhere in Europe, however, the predicted effects did not materialize. Historical research points to a complex array of domestic political factors driving the break in the Franco-Belgian alliance rather than to a loss of faith in French resolve over the German remilitarization of the Rhineland.[61] Additionally, the British-Portuguese alliance remained intact, and the predicted bandwagon effects did not appear, as neutral nations refrained from flocking to the German camp. Turkey even began negotiating an alliance with Britain and France in mid-1939.

There appears to be even less crisis-driven learning in the post–World War II period. In 1949 the U.S. had demonstrated its resolve to defend its extended foreign policy interests in Europe by standing with West Berlin through the Soviet blockade in the first major showdown between East and West. This resolve was further demonstrated in its strong response to the invasion of South Korea. These events occurred after the signing of the Brussels Treaty and the expression of interest in forming an Atlantic security structure, so they cannot be attributed to lessons learned from the Berlin crisis or the invasion of Korea. Though it might be too much to expect the communist-dominated East European nations to flee the Soviet camp, what is missing is any movement on the part of Yugoslavia, Finland, Sweden, Ireland, or Switzerland toward joining NATO after the Soviets lifted the blockade on Berlin in 1949. Similarly, the U.S. victories over the Soviet Union in the Berlin deadline crisis of 1961 and the Cuban Missile Crisis of 1962 failed to move any European neutrals into NATO (or Warsaw Pact nations into neutrality, for that matter) or Cuba away from Soviet influence. In short, then, there is some limited support for the proposition

[59] Rothstein (fn. 29).
[60] Nils Örvik, *The Decline of Neutrality, 1914–41* (Oslo: Tanum, 1953), 177–90.
[61] Kieft (fn. 52).

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that great power crises can serve as formative events for minor powers, but the effect is not nearly as large as it is for world wars as formative events.

Conclusions

This article presents striking empirical results: the alliance choices of minor powers in the twentieth century were determined mainly by lessons drawn from formative national experiences, and only marginally by variations in the levels of external threat. Also striking is that these states learned in quite a simple fashion: success promoted continuity and failure stimulated innovation. This is an encouraging finding for the exploration of the role of beliefs in international relations, as it points to the broader conclusion that the construction of elaborate models of incomplete information is not the only path to understanding the role of beliefs. The significance of this alternate, simple model path is that it lends itself much more easily to the application of more rigorous, quantitative empirical tests than do sophisticated formal models of learning. The finding of the virtual irrelevance of variations in the level of threat to states' decisions is a serious blow to the balance of threat variant of realism. In a more limited way, it also strikes at traditional realism in general, given the acceptance of balance of threat theory among realists and the importance of alliances to realism. Indeed, the accurate prediction of alliance behavior is virtually a sine qua non of realism, and failure to do so ought to encourage reconsideration of traditional concepts of realism.

While this successful empirical challenge to traditional realism might point in the direction of the construction of an entirely new framework of international politics, a more fruitful path might be to put these findings in the context of a more extensively specified version of realism. The empirical results of this paper do not challenge the realist assumptions that states act in their self-interest or that state behavior is dominated by concerns over security issues. The divergence from traditional realism emerges from the learning proposition that some states react differently than others to the same set of circumstances. Similar to the point made by Christensen and Snyder, these results encourage the conclusion that to understand how decision makers cope with the uncertainty intrinsic to world politics, it is necessary to account for beliefs. An enlightened version of realism, then, would recognize the important role decision makers' beliefs play in forming foreign policy and would acknowledge that exploring the origins of these beliefs can substantially improve our understanding of world politics.

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SMALL STATES IN BIG TROUBLE
State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s

By HERMAN SCHWARTZ*

INCREASED internationalization of production, especially financial flows since 1973, has created pressures to change relations between state, society, and economy in advanced industrial countries. This has been most evident in the erosion of the ability of states to manage their economies, an erosion accelerated by the states themselves through market liberalization.[1] At the same time liberalization also partly freed the states from political responsibility for some market outcomes. But aside from a few analyses of Britain—which is usually seen as "exceptional"—few have argued that international market pressures are causing not simply a shift toward "less state" but also a shift toward a different kind of state or *regime*.[2] Rather, most analyses argue that changes in the global economy have affected only the ability to govern the (domestic) economy; few have made "second image reversed" arguments that these external changes are leading to changes in regime.[3]

This more profound shift toward a new kind of regime was most visible in the 1980s in Britain, where it was associated with Prime Minister

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[1] See, for example, Michael Loriaux, "States and Markets: French Financial Interventionism in the 1970s," *Comparative Politics* 20 (January 1988); G. John Ikenberry, "Market Solutions for State Problems: The International and Domestic Politics of American Oil Policy," *International Organization* 42 (Winter 1988); Jeffry Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45 (Autumn 1991); Paul Pierson and Miriam Smith, "Bourgeois Revolutions? The Policy Consequences of Resurgent Conservatism," *Comparative Political Studies* 25 (January 1993). Geoffrey Garrett and Peter Lange argue that reduced *macroeconomic* policy autonomy has not hindered the ability of parties to promote partisan policies in other areas; see Garrett and Lange, "Political Responses to Interdependence: What's 'Left' for the Left?" *International Organization* 45 (Autumn 1991).

[2] On British exceptionalism, see Pierson and Smith (fn. 1), esp. 489, 510–13; and Joel Kreiger, *Reagan, Thatcher, and the Politics of Decline* (Oxford: Polity Press, 1986).

[3] Peter Gourevitch, "The Second Image Reversed: International Sources of Domestic Politics," *International Organization* 32 (Autumn 1978).

World Politics 46 (July 1994), 527–55

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Margaret Thatcher and "Thatcherism." Thatcher embarked on an ambitious project to restructure British politics permanently by restructuring the institutional fabric of the state. Whereas Thatcherism is usually seen as an "exceptional" case, in fact equally—or even more—sweeping changes occurred in the 1980s in four small market economies governed or influenced by parties of the *Left:* Australia, Denmark, New Zealand, and Sweden.[4] Where such "fellow traveling" by right-dominated states would not have been surprising in the 1980s, it *is* surprising to find it by these left-dominated governments. Indeed, they went farther in many cases than right-wing governments; moreover, the very states thought to exemplify social democratic political hegemony, Sweden and Denmark, were the locus of far-reaching changes. The scale and significance of ongoing change makes these four worthy of study.[5]

First, change has occurred in the welfare state—precisely that part of the state in which institutional reorganization is thought to be difficult, if not impossible. Public choice and collective action theories suggest that the dense networks of interest groups built up in and around discrete parts of the welfare state, along with the broad public support generated by the universal provision of welfare, would make reorganization of the welfare state impossible. Analysts like Esping-Andersen advocated universal welfare provision precisely because of its seeming irreversibility.[6] And indeed, other analysts of changes in the 1980s found the welfare state to be the least affected.[7] Events in these four countries suggest to the contrary that welfare state institutions can be reorganized in fundamental ways.

Second, the kind of change occurring in these four countries has interesting theoretical and practical implications. While reorganizers in all four states encountered varying degrees of resistance and have had varying degrees of success, they all sought the same kinds of change. In each country, they decentralized operational authority and responsibility for outcomes by putting it in the hands of line agencies while centralizing control over the volume of spending. They brought market and market-like pressures to bear on the administrators and personnel of state agen-

[4] Indeed, some local observers noted similarities to Thatcherism: Jonathan Boston, "Thatcherism and Rogernomics: Changing the Rules of the Game," *Political Science* 39 (December 1987); Neils Finn Christiansen, "Denmark: End of the Idyll," *New Left Review*, no. 144 (March–April 1984).

[5] For example, in proportion to average 1988–92 GDP, New Zealand's privatization receipts are over three times larger than Britain's. New Zealand's receipts were 3.55 percent of GDP versus about 1 percent for Britain, 0.5 percent for Sweden and Australia, and less than 0.1 percent for Denmark. *Economist*, June 19, 1993, p. 112.

[6] Gøsta Esping-Andersen, *Politics against Markets* (Princeton: Princeton University Press, 1985); idem, *Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990); Mancur Olson, *Logic of Collective Action* (Cambridge: Harvard University Press, 1965); James Buchanan, Robert Tollison, and Gordon Tullock, eds., *Towards a Theory of the Rent-seeking Society* (College Station: Texas A & M Press, 1980).

[7] Pierson and Smith (fn. 1), 489, 513.

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cies to foster competition and hence greater efficiency. In other words, rather than privatizing in the sense of selling off national industries, reorganizers privatized the welfare state itself by creating markets for the provision of welfare state goods and services.

Complementing this, reorganizers have tried to engage consumers of state services in the production of those services by offering them more freedom in the choice of services and service providers; they have also imposed user fees. Rather than using direct spending cuts and unwieldy regulation to control the behavior of state personnel and consumers, reorganizers are trying to control behavior by reconfiguring the structure of incentives confronting both employees and managers inside agencies and consumers outside them. These organizational changes mirror the kind of reorganization that occurred in the private sector during the 1980s and that are continuing in the 1990s. This uniformity of intention and to some extent of outcome suggests that these changes are part of a more general trend in the advanced industrial countries.

As yet another interesting aspect of these changes, reorganizers are engaged in a strategic politics that attempts to change the rules of the game rather than just seeking their preferred outcome in the context of extant rules. This is part of a broader effort to create more autonomy for the central state by breaking up the broad social base of support for the welfare state that characterized, for example, Scandinavian politics during the period of social democratic dominance.[8] Pace Woodrow Wilson's distinction between politics and administration, administrative changes are political exercises; in this case administrative changes have far-reaching consequences.

Analysts as diverse as Poulantzas, Moe, and March and Olson argue that politics at its highest level is about building one's own interests into institutions while precluding institutional behaviors and structures that favor one's opponents.[9] Although these analysts come from profoundly different theoretical perspectives, all of them attack the (Mancur) Olsonian reduction of politics to autonomous individual utility calculations. Instead, they see institutional rules, norms, and structures as binding individuals into groups and groups into coalitions, helping to overcome the barriers to collective action. Conversely, institutions can fragment groups by exacerbating barriers to collective action.

[8] Esping-Andersen (fn. 6, 1985 and 1990).

[9] Nicos Poulantzas, *Political Power and Social Classes* (London: Verso, 1978); James Marsh and Johan Olsen, "The New Institutionalism: Organizational Factors in Political Life," *American Political Science Review* 78 (September 1984); Terry Moe, "The Politics of Structural Choice: Towards a Theory of Bureaucracy," in Oliver Williamson, ed., *Organization Theory* (New York: Oxford University Press, 1990). The first two approach this problem primarily as one of hegemony/legitimacy; Moe approaches it using the new economics of organizations.

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In the cases under consideration here reorganizers pushed institutional changes that enhance central state autonomy. Decentralizing operational authority forces local agencies and localities to use their new operational autonomy to prioritize activities within global budgetary constraints. This disperses political conflict away from central government and to the localities, where small groups will fight over their particular interests.[10] It increases central state autonomy by removing pressures to increase spending on broad problems with broad constituencies, and by shifting responsibility for failure onto local government and specific service providers. Put crudely, if the former system of quasi-monopoly provision of state services encouraged the use of voice by making exit difficult, the new system is intended to encourage consumers to exit from specific providers in order to prevent them from using voice on the central state.

Finally, these political consequences are interesting because the small size and relative vulnerability to world markets of these four countries makes them a kind of "leading indicator" of changes likely to occur later in relatively more sheltered economies.[11] During the 1970s all four experienced declining international competitiveness and rising fiscal deficits, which by the early 1980s had cumulated into substantial foreign and public debts. As in Britain—the weakest of the major economies—reorganization of the state began in the 1980s. The size of the larger economies cushioned them from the stresses of the 1980s, but even there trade ratios are growing and the structural component of fiscal deficits has increased significantly in the last five years. As their situation comes more and more to resemble that of the smaller countries, the same kind of political pressures for change are likely to emerge.[12]

This paper is divided into four sections. The first discusses the motives of those seeking reorganization by looking at the origins and scale of the crises that brought governments set on reorganization to power. The second section briefly treats the content of reorganization, focusing on the introduction of market mechanisms in the respective (welfare) states. The third section explains differences in the relative success reorganizers had and, related to this, the emergence of conflicts inside the parties pushing

[10] For an interesting analysis, see Leslie Eliason, "The Political Uses of Decentralization as a Policy Strategy: Education Reforms in Sweden, Denmark, and the United States" (Paper presented at the conference "Sweden and the New Europe," University of Washington, Seattle, November 1992).

[11] Francis Castles, *Australian Public Policy and Economic Vulnerability* (Sydney: Allen and Unwin, 1988); Peter Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985).

[12] OECD, *Economic Outlook June 1993* (Paris: OECD, 1993); the unweighted average structural fiscal deficit of the G 7 countries in 1993 is 3.2 percent of GDP. Even in the U.S., the world's largest and least vulnerable economy, the (re)organization of government and welfare spending understood broadly has become a political and competitiveness issue—vide Vice President Albert Gore's recent campaign, referenda on school choice, and such popular books as David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Mass.: Addison-Wesley, 1992).

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reorganization. The conclusion advances some arguments about the intertwining of international and domestic politics, the potential for welfare-state reorganization, and the implications of reorganization for state autonomy and collective action in these countries. In other words: why, what, how, and so what?

I. Crises and Change

In these four countries coalitions of politicians, fiscal bureaucrats, and capital and labor in sectors exposed to international competition allied to transform what they saw as a major factor contributing to declining international competitiveness: the state. The state, particularly the welfare state, was the largest single part of the nontradables sector in their societies. Rising costs for nontradable inputs and rising wages in the nontraded sector decreased the competitive position of tradables firms on the world market. The cost of nontradable inputs had to be bundled into prices for export goods; the Australian Bureau of Industry Economics estimates, for example, that nontradables comprise 30 percent of the final cost of Australian exports. Given existing collective bargaining structures, increased wages in one sector tended to lead to increases in the other. As the state in the late 1970s was not subject to competitive pressures, public sector workers could make wage demands without fear of decreasing their employment prospects. Finally, rising state spending translated into rising tax pressure on the tradables sector.

Although their efforts to transform the state were not uniformly successful and although reorganizers had different motivations, they did share a reasonably common picture of a "new model" state as a means to their somewhat diverse ends. Fiscal bureaucrats, seeking to control fiscal deficits, sought more autonomy for the core state—the state of the fisc, courts, and military. They identified the welfare state and its associated client groups as the source of rising deficits and feared the fisc would be crippled by interest payments and become dependent on foreign creditors. Those politicians entering government after a generation in opposition everywhere except Sweden sought to consolidate their majority by attacking an inefficient and unresponsive public sector; in Sweden they hoped to reconstitute their majority. Firms in the tradables sector were alarmed at how public sector wage demands and rising public debt each boosted taxes and their direct costs, making them less competitive. Finally, unions in the tradables sector sought to restore differentials between themselves and unskilled workers and public sector workers that had been compressed during the 1960s and 1970s. So reorganizers all sought to control costs in

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the public sector with competition, while also delinking public sector wages from private sector wages.[13]

The proximate political motives for change came from the failure of policy responses to the 1970s international economic shocks. Those failures manifested themselves in rising current account deficits and thence rising foreign debt. All four countries opted to ride out the 1970s with Keynesian bridging strategies and income policies to control inflation.[14] These policies tried to decrease the impact of volatile international markets on the domestic economy and particularly to keep unemployment from growing. Although the specific policy mix differed, these bridging strategies fostered fiscal and current account deficits in each country, which by the early 1980s had cumulated into unsustainable levels of public and foreign debt. Tables 1, 2, and 3 provide comparative data on foreign debt, current account deficit, and fiscal deficit levels; Table 4 provides a snapshot for the year in which government changed.

Each country expanded employment in the nontradables sector to sop up the growing number of unemployed. This was often done by expanding the public sector; indeed, in Denmark and Sweden social service employment grew so rapidly that it not only absorbed labor market entrants but also actually offset some private sector job losses. By the early 1980s public sector employment (excluding state-owned commercial enterprises) peaked in each country, at 32.9 percent in Sweden, 30.2 percent in Denmark, 24.9 percent in New Zealand, and 17.4 percent in Australia, versus an OECD average of 18 percent.[15] To the extent that public sector expansion did not sop up private sector job losses, unemployment compensation payments rapidly grew, further straining fiscal resources.

[13] The complement to this—efforts to change private sector collective bargaining—is obviously important but beyond the scope of this paper. For instructive analyses, see Jonas Pontusson and Peter Swenson, "Markets, Production, Institutions and Politics" (Paper presented at the Eighth International Conference of Europeanists, Chicago, March 1992); Torben Iversen, "Trends *away* from Corporatist Intermediation and the Logics of Consensual Wage Regulation" (Paper presented at the annual meeting of the American Political Science Association, Chicago, September 1992); and John Niland, "The Light on the Horizon: Essentials of an Enterprise Focus" (Sydney: University of New South Wales School of Industrial Relations and Organizational Behavior Working Paper no. 80, June 1990).

[14] Torben Andersen, "Macro-economic Strategies towards Internal and External Balance in the Nordic Economies" (Århus: University Economic Institute Memo 1989-5, 1989); Lars Mjøset, "Nordic Economic Policies of the 1970s and 1980s," *International Organization* 41 (Summer 1987); John Gould, *The Rake's Progress* (Auckland: Hodder Stoughton, 1982), chaps. 4, 5, 8; and Castles (fn. 11). A broad comparison can be found in Gisli Blondal, *Fiscal Policies in the Smaller Industrial Countries, 1972–1982* (Washington, D.C.: IMF, 1986).

[15] Peter Saunders, "Recent Trends in the Size and Growth of Government in OECD Countries" (Sydney: University of New South Wales, Public Sector Research Centre Discussion Paper no. 20, September 1991), 5. Including state-owned commercial enterprises would increase the share of public employment in Australia to about 26 percent. These peak levels reflected rapid expansion of the public sector's share of total employment. Between 1970 and 1979 this share grew in Sweden by 43 percent, in Denmark by 56 percent, in Australia by 37 percent, and in New Zealand by 31 percent.

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Table 1
Current Account Deficits, 1950-89
(average percentage of GDP)

	1950–59	*1960–69*	*1970–79*	*1979–82*	*1983–89*
Australia	2.3	3.0	1.9	3.8	5.0
Denmark	0	1.6	3.0	2.5	2.8
New Zealand	0.6	1.8	3.5	4.9	4.8
Sweden	1.3	1.0	0.7	2.9	0.3

Sources: Calculated from Det økonomisk Råd, *Economic Growth in a Nordic Perspective* (Helsinki: Frenckell, 1984), 316–19, 363–66; Australian Bureau of Statistics, ABS #5303, *Balance of Payments* (various annual volumes); OECD, *Economic Survey: Australia, 1989–90;* OECD, *Economic Survey: New Zealand, 1989–90;* OECD, *Economic Survey: Denmark, 1989–90;* OECD, *Economic Survey: Sweden, 1990–91.*

Table 2
Net Foreign Debt
(percentage of GDP)

	1973	*1982*[a]	*1989*
Australia	3.3	15.6	31.0
Denmark	10.8	33.0	38.0
New Zealand	7.3	57.0	42.7
Sweden	(6.8)[b]	21.8	25.0

Sources: Calculated from Det økonomisk Råd, *Economic Growth in a Nordic Perspective* (Copenhagen: Det økonomisk Råd, 1984), 316–19, 363–66; Australian Bureau of Statistics #5305.0, *Foreign Investment in Australia* (Canberra: AGPS, various dates); OECD, *Economic Survey: New Zealand, 1986;* International Monetary Fund, *International Financial Statistics* (Washington, D.C.: IMF, various dates).

[a]1983–84 for Australia and New Zealand.

[b]This indicates a surplus.

Table 3
Fiscal Deficit, General Government
(average percentage of GDP)

	1971–79	*1980–83*	*1984–89*	*1990–91*
Australia	2.3	1.8	1.6	0
Denmark	(1.0)[a]	5.9	1.0	3.1
New Zealand	5.1	7.8	2.5	0.2
Sweden	2.8	9.3	1.4	2.4

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.: IMF, various dates).

[a]This indicates a surplus.

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TABLE 4
ECONOMIC INDICATORS IN YEAR GOVERNMENT CHANGED[a]

% of GDP except 4	1 Current Account Deficit	2 Fiscal Deficit	3 General Government Spending	4 Public Sector Employment as % of Labor Force
Australia	3.9	4.2[b]	38.6	17.4
Denmark	4.0	9.2	61.2	30.2
New Zealand	6.0	8.9	35.3	24.9
Sweden	3.3	7.1	66.3	32.9
OCED average	0.3	4.2	45.8	18.0

SOURCES: For columns 1 and 2, see Table 1; for columns 3 and 4, see Peter Saunders, "Recent Trends in the Size and Growth of Government in OECD Countries" (Sydney: University of New South Wales Public Sector Research Centre Discussion Paper no. 20, September 1991).

[a]1982 for Denmark and Sweden; 1983 for Australia; 1984 for New Zealand, except for public sector employment, which is 1984 for all countries.

[b]Australia's public sector borrowing requirement was 6.7 percent of GDP though, reflecting heavy borrowing by state enterprises.

In all four countries these sheltering strategies also abetted wage explosions that directly worsened relative unit labor costs and thence current account deficits.[16] Brief Labor governments in Australia and New Zealand (1973 to 1975) abetted significant rises in real wages—in Australia 12 percent in 1974–75; in New Zealand 5 percent in 1974–75; 9 percent in Denmark in 1975; and 12 percent in Sweden in 1975–76. These wage hikes originated in the raw materials export sector of these countries, which benefited briefly from the 1970s commodity boom. But tightly centralized systems of collective bargaining spread those increases to other sectors, and in the three economies with small manufacturing sectors it meant that the expansion of nontradables employment and wages in the public sector rapidly flowed through into increased imports. After the 1980–82 recession unions in tradables began shifting toward wage restraint strategies in order to protect employment. But sheltered public sector unions, whose membership and organizational strength had grown during the 1970s, continued to press for increased wages.

By the early 1980s both fiscal and current account deficits had reached unsustainable levels and had cumulated into dangerously high levels of

[16] See OECD, *Economic Surveys* (Paris: OECD, various dates) for the various countries, particularly 1986–87 for Australia, 1982–83 and 1986–87 for Denmark, 1984–85 for New Zealand, and 1982 for Sweden.

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public and foreign debt. Incumbent governments made late and limited efforts to attack these problems. From 1982 on, the opposition took power. Each of these incoming parties, with explicit or implicit backing from fiscal bureaucrats and from capital and labor in tradables, continued and expanded earlier hesitant efforts at liberalization of their economies. They also introduced market mechanisms into the welfare state. While the objective indicators of fiscal and current account deficits indicated a problem existed, it was not clear what the sources of that problem were. The problem and its relevant policy solutions were defined politically by the coalitions that emerged in the early 1980s.

The Swedish Social Democrats (SAP) emerged from the 1982 elections as the dominant party and replaced the governing bourgeois coalition. In September 1982 the Danish Social Democratic Party resigned in favor of a four-party, but minority, bourgeois coalition.[17] In 1983 the Australian Labor Party (ALP) won a narrow majority. In 1984, because a new right-wing party stole urban votes from the National Party, the New Zealand Labour Party won an unusually large majority on the basis of a fairly small increase in its own vote. The last three parties saw their accession to government as a chance finally to institutionalize themselves as the natural party of government; the SAP saw a chance to retain that role. In Australia and Sweden, the ALP and SAP both explicitly campaigned on a platform of public sector reform.[18] In New Zealand the Labour Party did so implicitly by attacking the interventionist policies of the incumbent government. And in Denmark the coalition prime minister's first parliamentary address made public sector reorganization the centerpiece of its policy initiatives, reiterating calls for deregulation made earlier by the incoming finance minister.

While, as we will see, fiscal bureaucrats and the two private sector actors may have proposed changes, politicians ultimately enacted change. Two factors constrained politicians, pushing them toward a more marketized welfare state rather than an American-style rollback. First, the general public in each country for the most part supported the existing welfare state, even if they were ambivalent about its cost and antagonized by its bureaucracy. Much as Esping-Andersen expects, welfare-state institutions generated substantial and entrenched constituencies. So a rhetoric stress-

[17] The four-leaf clover coalition was comprised of the Conservative Peoples Party (14.5 percent of seats), Venstre (Agrarian) Party (11.3 percent), the Christian Peoples Party (2.6 percent), and the Center Democrats (3.2 percent). The two larger parties ejected the smaller parties in 1988 in favor of the midsize Det radikal Venstre (the Radical Left, which despite its name is rather like the German Free Democrats, and held 5.6 percent of seats in 1988), but from December 1990 until March 1993 those two parties governed as a minority coalition.

[18] See, for example, Bob Hawke and Gareth Evans, *Labor and the Quality of Government* (Canberra: ALP, 1983); and John Dawkins, *Reforming the Australian Public Service* (Canberra: Australian Government Publishing Service, 1983).

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ing the same and better services at a reduced cost was politically more viable than direct cuts. Furthermore, emphasizing efficiency was a way to preempt right-wing demands to shrink the state. Second, the electoral base of the left-wing parties governing everywhere but Denmark combined both private and public sector workers, and these parties were hesitant to alienate the latter. Reorganization cum marketization seemed a way around these difficulties, because unlike direct cuts, its consequences for individuals could not be calculated easily. Some workers stood to benefit, while others might lose, and this made it difficult for unions to organize opposition to the creation of markets for public sector goods.

Politicians sought reorganization as a means of tightening their parties' grip on power. In their efforts to create a new social base for their parties, politicians exploited citizen dissatisfaction with public services and weakening voter identification brought on by the new social movements of the 1970s. To the extent that public sector workers served themselves and were in turn bound by tight and rigid webs of bureaucratic oversight, their inability to respond to public demands for better service stirred up enormous dissatisfaction with those public services and the state. The Swedish Social Democrats similarly feared the consequences of long-term shifts in the voters' partisan identification and of their discontent with public services.[19] In their case they sought to shore up an eroding base of support for both their party and its achievements since World War II. Their more defensive orientation delayed a full-fledged effort at change until 1985-86. Although public sector reform sat at or near the center of party programs, fiscal bureaucrats largely supplied the content of this reorganization.

By the early 1980s fiscal bureaucrats in these four countries—administrators of finance ministries and central banks—were alarmed by the cumulation of fiscal and current account deficits into potentially unsustainable levels of public and foreign debt.[20] For example, in a speech echoed in New Zealand, Australia's treasurer expressed the fear that Australia would end up a "banana republic." Rightly or wrongly, fiscal bureaucrats located the source of the deficits in the rapid public sector expansion of the 1970s. Viewing welfare-state expansion through the lens of rent-seeking activity, they saw no end to either growth or deficits. First, public sector employees themselves had become a potent rent-seeking force pushing for the further expansion of the public sector. Second, well-organized social groups pressured politicians to expand those parts of the

[19] Jon Pierre, "Legitimacy, Institutional Change, and the Politics of Public Administration in Sweden," *International Political Science Review* 14 (Winter 1993).

[20] Herman M. Schwartz, "Public Choice Theory and Public Choices: Bureaucrats and State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s," *Administration and Society* 25 (May 1994).

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public sector and those state regulations that favored them. If both continued, public debt would become uncontrollable and foreign creditors might impose discipline from the outside.

This expansion of welfare spending and debt service threatened the state in two ways. First, it reduced the ability of the fiscal bureaus to control spending along what they considered rational lines and subjected local macroeconomic policy to even more external constraints than before. Second, the fiscal bureaus feared a loss of state autonomy to incessant demands from society; they feared, in the parlance of the time, overload. From the perspective of the fiscal bureaus, the only way to restore autonomy to the old state (the state of the fisc, the courts, and the military) was to subject the new state (the state of health, education, and welfare) to market pressures. This would contain rent-seeking groups. Like-minded finance ministers such as John Dawkins, Henning Christophersen, Roger Douglas, and Kjell-Olaf Feldt played a crucial mediating role, linking bureaucrats to the new cabinets.

Employers in export-oriented and/or internationally exposed sectors—tradables, in short—feared the consequences of apparently uncontrollable growth in the largest nontradable sector in their economies: the state. Their fear had several aspects. In general larger public sectors and cumulation of public debt meant larger tax burdens. The rising cost of public sector employment and the cumulation of fiscal deficits into growing public debts caused a growing tax wedge in each country. (The tax wedge is the difference between an employee's net after-tax wages, including fringe benefits, and what it actually costs an employer to deliver that wage, including wage-based social security or social insurance taxes that go directly to the state and the income taxes that indirectly go to the state through the employee.) As direct and income-based taxes rise, the difference between the employee's after-tax wage and the employer's gross wage payout increases. The employer's total wage cost is built into the price of the goods being sold. When these goods are not subject to international competition, the tax wedge does not affect competition, because all producers are affected equally by the tax wedge—it is simply part of the cost of doing business. But for employers in tradables, a rising and/or large tax wedge hurts competitiveness by raising relative unit labor costs. In economists' terms, wage increases in excess of world price trends make exporting unprofitable at a given level of world prices, causing a shift of resources from the tradable sector to the nontradable sector domestically.

Employers in the tradables sectors also found that disciplined skilled labor was a prerequisite for success in the changed international economic environment of the 1980s. But centralized systems for collective bargaining prevented them from attracting or developing a pool of skilled

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labor without simultaneously stimulating wage increases in the public sector.[21] The reverse was also true: as public sector workers sheltered from international market forces demanded increased wages, so too did unions in the tradables sector, undoing income policies designed to restrain wages across the board.[22] So these employers sought to dismantle corporatist, centralized bargaining by delinking public and private sector wages. Simultaneously, they sought to expose nontradables and the public sector to more market pressures as a way of increasing the sector's competitiveness and restraining wage growth. Reorganization was a means to greater competitiveness.

Higher taxes and tightly linked systems for public and private wage determination also threatened labor peace.[23] Unions representing skilled workers and workers in the tradables sector were dismayed by the erosion of wage differentials between themselves and unskilled and public sector workers and by the long-term consequences of public sector growth for their own employment prospects. They sought to restore differentials by escaping from highly centralized, corporatist systems for collective bargaining linking private and public sector wages and skilled and unskilled workers' wages. The shift in the international economy toward skill-driven production gave them more market power. At the same time the fear of uncompetitiveness in world markets reinforced their desire to change bargaining systems in order to preserve competitiveness and thus employment levels. Along with changes in collective bargaining arrangements, unions in tradables sought reorganization to protect themselves from other workers.

All four groups sought state reorganization as one means to their different ends. All four sought to embed new rules of conduct in extant agencies via new organizational structures, in hopes of putting downward pressure on public sector wages or at least slowing the growth of spending. What did they actually do?

[21] Scott Lash, "The End of Neo-corporatism? The Breakdown of Centralized Bargaining in Sweden," *British Journal of Industrial Relations* 23 (November 1985).

[22] David Plowman, *Wages Indexation: A Study of Australian Wage Issues, 1975–1980* (Sydney: George Allen and Unwin, 1981); Jonathan Boston, *Incomes Policy in New Zealand, 1968–84* (Wellington: Victoria University Press, 1984); Peter Nannestad, *Danish Design or British Disease* (Århus: Århus University Press, 1991).

[23] The best theoretical description of this process can be found in Peter Swenson, *Fair Shares: Unions, Pay and Politics* (Ithaca, N.Y.: Cornell University Press, 1989). Swenson structures it as two "trilemmas" confronting individual unions. In the first unions try to balance full employment, maximization of the wage share, and internal wage leveling in pursuit of intraunion solidarity. In the second unions try to balance full employment, internal wage leveling, and external wage leveling (leveling across unions to preserve their own union's institutional existence). For individual discussions, see the sources cited in fn. 22; Gwynneth Singleton, *The Accord and the Australian Labor Movement* (Melbourne: Melbourne University Press, 1990), 142–46; and Kristina Ahlen, "Swedish Collective Bargaining under Pressure: Inter-union Rivalry and Incomes Policy," *British Journal of Industrial Relations* 27 (November 1989).

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II. Private Sector Models, Public Sector Subjects

Reorganizers, particularly fiscal bureaucrats in these four countries, consciously drew on private sector models.[24] Both bureaucrats and actors in the tradables sector saw markets as a way to discipline the public sector. The adaptation of private sector models is unsurprising. First, intellectually, the ideological supremacy of monetarism during the 1980s made it a short step from the idea that the private sector was more efficient to the idea that private sector models for change must also be best. Private and semiprivate think tanks in the U.S. and Britain propagated these ideas, helping to establish similar think tanks in the Australasian pair and influencing the debate in the Scandinavian pair. In Australasia private sector executives were imported into the public sector to direct and manage change. Finally the OECD published a number of studies calling for reorganization of social service delivery and public administration.[25]

Reorganization efforts centered on three essential features drawn from private sector models. The following discussion imposes a common language on these efforts, so that differences in rhetoric do not obscure substantive similarities. All tried to change the way managers supervised employees, that is, by "letting managers manage." They introduced more flexible work practices, allowed more variation in individual wages, and decreased the number of job classifications to break the very rigid use of personnel that characterized the public sector. They also tried to break the link between private sector and public sector wage increases. All tried to change the way that fiscal bureaucrats supervised managers, to achieve "managing for results." They freed managers from line-item budgets and input-oriented controls and granted them operational discretion.

All tried simultaneously to change the way tasks were allocated to agencies and to centralize control over global budgets and prevent overruns along the lines of "the holding company model." They tried to flat-

[24] Information in this section draws on author interviews with union, business organization, party, and finance ministry personnel conducted in 1988, 1990, and 1991, in New Zealand, Denmark, and Australia. The secondary literature also indicates the importance of private sector models. See Rune Premfors, "The 'Swedish Model' and Public Sector Reform," *West European Politics* 14 (July 1991); Brian Easton, "From Reaganomics to Rogernomics," in Alan Bollard, ed., *The Influence of United States Economics on New Zealand* (Wellington: NZIER Research Monograph no. 42, 1988); Michael Pusey, *Economic Rationalism in Canberra* (Melbourne: Cambridge University Press, 1991).

On private sector changes, see Rosabeth Kanter, *When Giants Learn to Dance: Mastering the Challenges of Strategy, Management, and Careers in the 1990s* (New York: Simon and Schuster, 1989); and Charles Sabel, "Moebius-strip Organizations and Open Labor Markets," and Rosabeth Moss Kanter, "The Future of Bureaucracy and Hierarchy in Organization Theory: A Report from the Field," both in Pierre Bourdieu and James Coleman, eds., *Social Theory for a Changing Society* (Boulder, Colo.: Westview Press, 1991).

[25] See, for example, OECD, *Employment in the Public Sector* (Paris: OECD, 1979); idem, *Administration as Service, the Public as Client* (Paris: OECD, 1987); idem, *Survey of Public Management Developments* (Paris: OECD, 1988); idem, *Flexible Personnel Management in the Public Sector* (Paris: OECD, 1990); idem, *Financing Public Expenditure through User Charges* (Paris: OECD, 1990).

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ten hierarchies and to separate the planning of state activities from its execution by centralizing strategic planning into a tight circle of fiscal bureaucrats. Finally, all of the reorganizers tried to introduce competitive pressures to force managers to use their newfound freedom to seek productivity-enhancing changes in work practices and to prevent the reemergence of old bureaucratic norms.

All these changes aimed at creating a market for public services. This required distributing the roles of consumer, arranger, financier, and provider of services to different individuals and organizations, rather than keeping them combined within monolithic, monopolistic agencies. Separating out these roles created discrete buyers and sellers of services.[26] As "god is in the details," I will treat each briefly.[27]

Letting Managers Manage

Reorganizers sought to change the way managers controlled employees. Decentralized or enterprise-based systems for wage determination replaced centralized bargaining. Fewer broad classifications replaced a plethora of minutely classified jobs. The ultimate control over public sector personnel generally shifted from dedicated public service boards to the finance ministries, which favored more flexibility and decentralization. These changes made it possible to reward or punish individuals on the basis of their productivity and to force workers to be more responsive to customer or client needs. These changes extended to managers, too. Their own career prospects were tied to the productivity and efficiency of their newly autonomous units, just as the fate of entrepreneurs is tied to that of their company.

New Zealand's Labour Party passed three acts in the late 1980s that brought the legal regime governing public sector labor relations into conformity with the private sector regime established in 1987. This expanded opportunities for enterprise bargaining at the expense of central wage determination. The old State Service Commission evolved from a neutral supervisor of public sector work conditions into management's bargaining agent.

Australia's Labor Party decentralized control over internal personnel for the Commonwealth (that is, federal) state with two acts of the mid-1980s that reduced the number of job classifications and gave managers the power to redeploy, hire, and fire labor at will. Control over staffing levels shifted from the Public Service Board to the Finance Ministry.[28]

[26] Emmanuel S. Savas, *Privatizing the Public Sector* (Chatham, N.J.: Chatham House, 1982); and idem, *Privatization: The Key to Better Government* (Chatham, N.J.: Chatham House, 1987).

[27] Schwartz (fn. 20) has a more detailed discussion.

[28] Colin Campbell and John Halligan, *Political Leadership in an Age of Constraint* (Pittsburgh, Pa.: University of Pittsburgh Press, 1992).

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Sweden's Social Democrats first centralized control over public sector workers into a new ministry, the Civildepartment, but did so to undercut a set of powerful and particularist sector-based boards blocking reorganization. The new ministry promised unions training and upgrading to get decentralized pay setting and more flexible personnel practices. The Finance Ministry limited public sector wages, delinked them from private sector wage talks, and devolved wage setting onto local government.[29] Local managers were also given more autonomy to manage their agencies *(selvforvaltning)*.

The Danish bourgeois coalition failed to introduce meaningful changes at this level. Initial efforts to permit a degree of subcontracting and a more flexible use of public sector labor *(selvforvaltning)* ran into united and well-orchestrated opposition led by some public sector unions. Unlike the other countries, many public servants retain tenure, homogenous pay scales, and easy access to grievance procedures, while collective bargaining remains substantially unchanged.[30] Reorganization largely occurred within the central state apparatus and not within the local governments that deliver most services.

Managing for Results[31]

In a complementary step, reorganizers also wanted to change the constraints imposed on managers by central bureaucrats. Financial supervision of line agencies shifted away from detailed control over inputs (for example, line-item budgeting) to a focus on outputs and outcomes. Managers were freer to use resources as they pleased in pursuit of their assigned outputs, but they now faced hard budget constraints. In New Zealand a series of administrative changes capped by the 1990 Public Finance Act accomplished this. In Australia it was done through the 1984 Financial Management Improvement Program and its associated Running Costs System. Sweden expanded its existing system of block budgeting and turned them into multiyear budgets. Denmark shifted from simple rebates for services provided by local government to block

[29] Lennart Gustafsson, "Renewal of the Public Sector in Sweden," *Public Administration* 65 (Summer 1987), 190; Peter Swenson, "Labor and the Limits of the Welfare State," *Comparative Politics* 23 (July 1991); Lois Wise, "Decentralization of Wage Setting: The Impact of International and Domestic Forces on the Swedish Public Sector" (Paper presented at the conference "Sweden in the New Europe," Seattle, November 1992).

[30] Jørgen Grønnegård Christensen, "Growth by Exception: Or the Vain Attempt to Impose Resource Scarcity on the Danish Public Sector," *Journal of Public Policy* 2 (Summer 1982); idem, "Interest Groups and Public Bureaucracy in Danish Regulatory Policy Making" (Manuscript, University of Århus, April 1990); Ole P. Kristensen, *Væksten i den offentlige sektor: Institutioner og politik* (Growth in the public sector: Institutions and politics) (Copenhagen: Jurist og økonomforbundets Forlag, 1987).

[31] In Danish, *målstyring;* Swedish, *målstyrning.*

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grants and also introduced budget "framing" (*rammestyring* or *rammebudget*) and net budgeting.[32]

All four budgets shifted from a cash basis to an accrual basis. Accrual-based budgets make it easier to account for agencies' future liabilities and thus head off overruns. New budgeting systems set global limits—blocks or frames—within which managers could freely spend, sometimes with separate frames for capital investment, personnel, and nonpersonnel expenses. Managers could spend money within the frame as they pleased but could not exceed it. In all four, managers were forced to pay market rates for new capital investment. So managers could now make rational trade-offs in their mix of capital and labor, as well as reward productive employees with productivity-based wages. User-pays (*brugerbetaling* or *brukerbetalning*) regimes supplemented this new managerial freedom/pressure. In Sweden and New Zealand agencies were moved to full cost recovery, while in Australia and Denmark user fees were broadened. Managers everywhere were permitted to retain user fee revenues, which they could either use to supplement their current budget or allocate to future spending.

Holding Company Model

Fiscal ministries also tried to separate the planning and execution of state activities by changing the relationship between themselves and line agencies, public enterprises, and local government. In effect, finance ministries tried to turn line agencies into black boxes; they no longer cared how the job was done—or indeed sometimes who did it—so long as it got done. These budgeting changes allowed finance ministries to devolve operational authority and thus *responsibility* onto line managers, while retaining control over total spending. Finance ministries supplemented this new medicine with more traditional across-the-board cuts: in Denmark by annual 2 percent reductions in the personnel frame after 1988 and through limits on local government taxes; in Australia by annual 1.25 percent reductions in agency personnel budgets after 1987; in New Zealand

[32] An overview of budget changes in the OECD can be found in Alan Schick, "Micro-budgetary Adaptations to Fiscal Stress in Industrialized Democracies," *Public Administration Review* 48 (January 1988). Detailed surveys of change in Australia and New Zealand can be found in John Forster and John Wanna, eds., *Budgetary Management and Control: The Public Sector in Australasia* (South Melbourne: MacMillan Australia, 1990). On Denmark, see Preben Melander, "Budgetreformen—et paradoks mellem finanspolitisk sikkerhed og organisatorisk forandring," and Klaus Nielsen, "Den Borgelige regerings styring af den offentlige sektors økonomi," both in Karl Henrik Bentzon, ed., *Fra Vækst til Omstilling: Modernisering af den Offentlige Sektor* (From growth to standstill: Modernization of the public sector) (Copenhagen : Frederiksberg Bogtrykkeri, 1988). On Sweden, see Gustafsson (fn. 29), 190; Gunnar Wallin, "Towards the Integrated and Fragmented State," *West European Politics* 14 (July 1991), 107–9; Jonas Pontusson, "Triumph of Pragmatism: Nationalisation and Privatisation in Sweden," *West European Politics* 11 (October 1988).

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by refusing to compensate agencies for a 2.5 percentage point increase in the VAT; in Sweden by freezing local government taxes and central government grants to localities.

The devolution of operational authority allowed fiscal bureaus to pit agencies against each other for budget resources. This again mirrored similar changes in the private sector. There, highly vertically integrated companies had begun to divest themselves of subsidiaries in order to act as central nervous systems controlling activities owned by other firms and temporarily hired by the corporation. Subsidiaries meanwhile were allowed to pursue their own corporate trajectories.

In both New Zealand and Australia a key committee took over the budget process. In New Zealand clear organizational lines were drawn between small planning agencies, which set output targets for contracts, and the larger departments that actually contract to perform these tasks. Finance ministries in New Zealand and Australia began "contracting" with ministries and agencies for outputs. Agency heads "bid" for the right to produce outputs, competing against each other in Australia and against alternative public and private providers in New Zealand.

In Sweden and Denmark the clear division of responsibilities between central and local government made formal committees less necessary but exacerbated conflict between central and local government. Despite the failure to concentrate control over spending into one body in Denmark, the central government eventually managed to control local government spending through a series of bruising battles with local government. The Swedish central state started to specify the outputs it wanted localities to generate while freeing them for rules in a series of "framework laws" passed in the 1980s. Both states initiated an experiment that freed localities from all input-oriented control. These "free cities" experiments in Scandinavia are a clear example of the process of operational decentralization and fiscal centralization. Towns are freed from regulation, given a block grant, and in return held to output targets set by central government planners. The new conservative government in Sweden and the new Social Democrat–led coalition in Denmark are both committed to more decentralization.[33]

Competition

All these changes aimed at creating the preconditions for a market: self-interested producers facing hard budget constraints but with the freedom

[33] Bent Schou, "Udgiftsstyring eller fornyelse," in Bentzon (fn. 32); Ingemar Elander and Stig Montin, "Decentralisation and Control: Central-Local Government Relations in Sweden," *Politics and Policy* 18, no. 3 (1990); Pierre (fn. 19).

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to structure production and respond to demand as they pleased. Leaving these reorganized agencies with product or territorial monopolies would have nullified the intended changes. So some degree of competition lay at the heart of all these efforts to replace bureaucratic controls for running the welfare state with self-motivated and market-disciplined controls. Again, with greatest effect in New Zealand and least in Denmark, finance ministries are trying to have public providers compete with each other and with private providers for business. Vouchers, user fees, and private providers have appeared even in core welfare-state areas like health and (especially tertiary) education. All of these resemble the "internal market" created in Britain for the National Health Service. The budgetary and legal changes listed above will only generate more efficiency if agencies, managers, and workers are motivated and/or pressured by competition to take advantage of the new opportunities.

Results

Despite large fiscal deficits at the beginning of the 1980s—9 percent of GDP for Denmark and New Zealand, 13 percent for Sweden, 4 percent for Australia—all four countries experienced significant deficit reduction during the 1980s, as the share of government and welfare spending in GDP fell.[34] The current recession has pushed them all back into deficit again, but in New Zealand and Australia these are mostly *cyclical* deficits. Sweden aside, they now have large primary (that is, net of interest payments) surpluses. So the reduction in the public sector's share of GDP is probably sustainable in the medium run, implying that public debt levels, interest payments, and thus tax pressure will fall. However, the importance of reorganization is clearly demonstrated by Denmark's fiscal balance, which swung from a large surplus in 1988 to a large deficit by 1992. Unsuccessful at reorganizing, the central state's control over spending eroded as its ability to bludgeon spending cuts from local government eroded. This in turn allowed spending to start rising again.

Aside from Denmark, they also saw a reduction in public sector employment, and public sector pay has lagged behind private sector pay growth. New Zealand had the sharpest drop in public sector employment—about 29 percent of its personnel. Federal public employment in Australia fell 10 percent. In both cases this partly reflected the effects of privatization. This is not surprising, however, as the point of reorganization is to make the public sector more like the private.

[34] Schwartz (fn. 20) has a more detailed discussion.

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III. Explaining Differences

Two things demand explanation at this point. First, to the extent that reorganizers succeeded, how were they able to alter the workings of a whole range of state institutions, including the supposedly untouchable welfare state? Success here is not just reversible budget reductions; it means institutional transformation that builds in long-term spending restraints by changing behavior. Second, the overly concise discussion above conceals reorganizers' different degrees of success in implementing change. In fact, these changes were implemented most thoroughly in New Zealand, less so in Australia and Sweden, and least in Denmark. What explains differences in successful implementation and the slight differences in content? These discussions can be combined.

Consistent with analyses of Britain and elsewhere, the greater the degree of autonomy or insulation that reorganization-minded governments enjoyed, the greater the chances of success.[35] The autonomy derives from three mutually reinforcing factors related to the electoral and constitutional system: the degree to which the electoral system and constitution created governing majorities; the willingness of fiscal bureaus to articulate market-based reorganization as a policy option and enact it administratively; and the degree to which politicians were sheltered from short-term political pressures. Put crudely, did they have the votes? Did they have a plan? And did they have the time to carry out the plan? First past the post systems tended to create solid and durable majorities for parties that had opted to push reorganization. By creating two-party systems, they limited the exit options for disaffected public sector workers, making it relatively easier for governing left-wing parties to reorganize without high political costs. In turn, the more unitary the state, the larger the majority, and the more certain the tenure of government, the more fiscal bureaucrats were willing to help politicians craft preemptive, comprehensive proposals for change that were difficult to oppose. And finally the more electoral breathing room politicians had, the easier it was for them to implement relatively comprehensive policies that would solidify their party's social base of support, albeit only in the medium or long term.

The degree of autonomy was crucial because three of the four governing parties received significant electoral and financial support from public sector workers and unions threatened by reorganization, and in Denmark the Social Democratic opposition passively supported reorganization. All four parties of the Left experienced growing internal tensions along a fault

[35] Krieger (fn. 2); Andrew Gamble, *The Free Economy and the Strong State* (Durham, N.C.: Duke University Press, 1988); Pierson and Smith (fn. 1); Geoffrey Garrett, "The Politics of Structural Change," *Comparative Political Studies* 25 (January 1993).

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line separating unions representing workers in the tradables sector from those in the nontradables sector (with the public sector being the largest nontradables producer), and sometimes skilled from nonskilled workers.[36]

These tensions arose for obvious reasons. Reorganization was intended to reduce the bargaining power and thus the wages of workers in the public sector. Second, and related, the three left-wing governments all were trying to create cross-class alliances with employers in the tradables sector at the expense of unskilled and public sector workers. Slight differences in emphasis in the content of reorganization can be explained by the efforts of politicians to retain the support of specific social groups in their electoral coalition and party organizations while they waited for medium-term effects to generate a new or stronger base of support. I will present the cases according to the relative degree of change, from greatest to least. Note first that while Denmark is treated as a case of least change, that is true relative to the other three but not to the mass of OECD countries.

New Zealand

In New Zealand state structures gave the Labour Party considerable autonomy, which facilitated change. New Zealand has a unitary state in which a single-house parliament is elected from single-member districts, usually yielding real majorities in parliament.[37] The absence of a written constitution also gives great discretionary power to the governing party; New Zealand, like Britain, has an "elected dictatorship."[38] Labour enjoyed an unqualified majority from 1984 through 1990 and consequently was able to ram legislation down the throats of the opposition both inside parliament and outside it.

Certain of Labour's tenure and majority, fiscal bureaucrats aggressively promoted the introduction of markets for public goods. The Treasury (that is, the finance ministry) used its briefing papers to the Labour government in 1984 and 1987 to lay out specific steps for deregulating the economy and introducing market mechanisms into the public sector.[39]

[36] See Iversen (fn. 13) for a systematic analysis of Scandinavian unions.

[37] Referenda in 1992 and 1993 mandated a change to a German-style mixed-member proportional system beginning with the next general election.

[38] Geoffrey Palmer, *Unbridled Power: An Interpretation of New Zealand's Constitution and Government* (Wellington: Oxford University Press, 1979).

[39] For views on the role of the fiscal bureaus, see Bruce Jesson, *Behind the Mirror Glass* (Auckland: Penguin, 1987); idem, *Fragments of Labour* (Auckland: Penguin, 1989); W. Hugh Oliver, "The Labour Caucus and Economic Policy Formation, 1981–1984," in Brian Easton, ed., *The Making of Rogernomics* (Auckland: Auckland University Press, 1989); and Roger Douglas and Louise Callen, *Towards Prosperity* (Auckland: David Bateman, 1987). The Treasury's advice was published as Treasury Department, *Economic Management: Brief to the Incoming Government, 1984* (Wellington: Government Printer, 1984); and idem, *Government Management: Brief to the Incoming Government, 1987* (Wellington: Government Printer, 1987); for a critique, see Brian Easton, "*Government Management*: A Review of Its Content," *Political Science* 42 (December 1990).

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The Reserve (that is, central) Bank was as aggressive with regard to exchange rate and fiscal policy; it eventually gained a new organic statute making it the OECD's most independent central bank. External events provided both motive and opportunity for fiscal bureaucrats to press their views on the new Labour government. Rating agencies downgraded New Zealand's public debt in early 1984 and the international financial community refused support during a run on the New Zealand dollar in July 1984. Roger Douglas, finance minister from 1984 to 1989, aggressively promoted Treasury's policy line.

With comprehensive if not always coherent plans in hand, Labour politicians proved adept at dividing up potential opposition to reorganization. Internally they used symbolic payoffs to their core constituencies in labor and the intelligentsia to distract them from fundamental changes to economic and administrative structures. Polls show that Labour's antinuclear and similar policies kept the public sector intelligentsia loyal despite changes in the collective bargaining law that worsened their economic position.[40] Labour also increased wages in the health and education sector at the same time that job security was undermined, which diluted opposition. Significant internal opposition emerged only after unemployment doubled, between 1987 and 1989, and it centered among those worst hit, mainly unskilled and public sector workers. They and their unions eventually hived off the Labour Party in 1989 and formed the New Labour Party.

Externally Labour crippled the opposition party by splitting it along its own internal fault line between tradable and nontradable businesses. The 1984 election revealed that a considerable block of tradables firms and yuppie employees had become disaffected because of the National Party's heavy-handed economic intervention. This block was open to something new, and Labour's aggressive economic liberalization and state reorganization policy was designed to capture it. In 1987 it worked. In 1990, after three years of falling stock market values and recession, it did not. Nonetheless, the National Party remains seriously divided. In continuing Labour's reorganization policy, it has caused some of its own M.P.s to defect to minor parties, and it too suffered a serious loss of vote share in 1993. In New Zealand, Labour had the votes, received a plan from the fiscal bureaucracy, and enjoyed six years in which to implement that plan.

Australia

Australia has a complex electoral system, with single-member districts for the lower federal chamber and quasi-proportional representation in the

[40] Jack Vowles, "Nuclear-free New Zealand and Rogernomics: The Survival of a Labour Government," *Politics* 25 (May 1990).

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upper house. It is also a federal system. Labor has controlled the federal government since 1983, but major state governments have been controlled by the opposition for part of this time. Unlike in New Zealand, the ALP could not simply legislate change everywhere. Instead, it used its control over the federal government to lead by example and by using block grants to the states as bribes or threats. The ALP moved more cautiously than New Zealand Labor, co-opting opponents of reorganization, but it moved just as systematically.

As in New Zealand, the fiscal bureaus played a crucial enabling role, despite being somewhat divided against themselves. The head of the Reserve Bank in 1983 was a cautious Keynesian who favored fixed exchange rates, and his successor was equally pragmatic. But both the Treasury, responsible for economic policy advice and exchange rate issues, and a separate Finance Department, responsible for the budget and, ultimately, public service personnel issues, had a reasonable consensus favoring marketization. Both were also led by ministers committed to economic liberalism and reorganization, respectively, Paul Keating and (at first) John Dawkins. The Finance Ministry and the Department of Prime Minister and Cabinet, largely staffed with ex-Treasury and Finance personnel, originated plans for public sector reorganization only slightly less comprehensive than those drawn up by the New Zealand Treasury.[41]

The ALP also had to balance the competing interests of public sector/unskilled workers and private sector/skilled workers. The series of so-called accords between the Australian Council of Trade Unions and the ALP held basic pay hikes below inflation during the 1980s. But they contained provisions for second-tier wage hikes based on productivity increases. These were more likely in manufacturing and particularly for skilled workers. So while the accords meant that everyone acquiesced in the erosion of real wages during the 1980s, they also meant that public sector workers lost the most ground. But this process was somewhat opaque, smoothing over the potential split between the different groups of unions. At the same time, to the extent that public sector unions/workers cooperated with productivity-enhancing reorganization plans emanating from the fiscal bureaus, they could also take advantage of second-tier bargaining. The ALP also avoided a sharp New Zealand–style rise in unemployment by moving more slowly in its reorganization of the state and the liberalization of the economy. So while the ALP avoided a New Zealand–style split, it did so partly by achieving less reorganization. In Australia, Labor had the votes at the federal level, a less extreme plan leveraged by more willing acceptance from the line bureaucracies, and as

[41] Campbell and Halligan (fn. 28); Pusey (fn. 24).

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it turned out its less confrontational style bought it more time than New Zealand Labour had.

Sweden

Sweden has a unitary government and proportional representation with a rough 4 percent threshold. This produces minority governments, but at least when the SAP (the Social Democratic Party) governs, it is a single-party minority government. So Sweden's SAP should have been better positioned than the ALP in terms of its ability to reorganize. But unlike both Australasian left parties, which suppressed internal conflicts through open political or covert economic side payments, the SAP remained divided. This division was replicated in interministerial conflicts for control of the reorganization program. Consequently, the fiscal bureaus were unable to offer a counterweight to antireorganization or antimarket groups inside the SAP. The central bank is subordinated to the government and remained staffed by Keynesians. The Finance Ministry, under Kjell-Olaf Feldt, followed a typical neoliberal line, but the newly created Civildepartment, which actually controlled reorganization until 1988, was oriented toward user participation *(brukermedverkan)* rather than user payments and markets.

Tensions about reorganization and liberalization of the economy thus led to conflicts between bureaus over control of reorganization, within the SAP, between the SAP and the union confederation LO, and between unions within LO. Initially, the new Civildepartment was run by a minister more attuned to the interests of local government and the public sector unions. He stressed decentralization and participation at the expense of centralized fiscal control and efficiency. A set of bills—not all of which passed—presented in 1985 and 1986 reflected this orientation.

By the mid-1980s, though, the private sector (mostly tradables) unions were in open conflict with the public sector unions, and some temporarily opted out of centralized bargaining.[42] After the 1988 election a deputy finance minister known for his hard line with public sector employees took over the Civildepartment. Efficiency replaced participation and consensus building, and decentralization was limited to operational responsibility and not financial resources. But by 1990 antireorganization elements of the SAP were again ascendant, and they forced Feldt's resignation.

As in Australia, reorganization came via a mix of legislative and administrative changes. Unlike Australia and even more New Zealand, the fis-

[42] Swenson (fn. 29), 383; see also Swenson and Pontusson (fn. 13); and Gudmund Hernes, "Dilemmas of Social Democracies: The Case of Norway and Sweden," *Acta Sociologica* 34 (Winter 1991).

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cal bureaus initially had only a weak voice in reorganization. So while the SAP had the votes, its factions pulled in different directions according to their own plans. As in New Zealand, the SAP suffered electoral disaster when its base split, because unlike the ALP the SAP could not bridge the differences between public and private unions.

Denmark

In Denmark, in contrast to the other three, hardly anything facilitated change. Denmark's system of proportional representation with a 2 percent threshold creates a highly fragmented parliament with minority governments—more than any other OECD nation. The strong functional division between central and local government, added to long-standing historical antagonism between the two, creates a quasi-federal system. The bourgeois coalition governing in the 1980s inherited power when the Social Democrats resigned and despite (or perhaps because of) four elections never accumulated an absolute majority. The coalition's weakness was clearly visible, particularly as the nongovernment parties had a habit of constituting themselves as an "alternative majority" to pass legislation over the coalition's head.[43]

In this context while fiscal bureaucrats had fairly well defined visions for change, they were quite cautious about providing politicians with blueprints. The central bank bowed out of fights, having already attained price stability through EMS membership, and emerging European Community public procurement guidelines foreshadowed more competition in public sector activities.[44] Meanwhile the possibility of a quick return to a Social Democratic government inhibited bureaucrats in the Finance Ministry. They offered relatively invisible administrative measures like the change to frame budgeting, rather than the blueprint worked up by New Zealand's Treasury. Without a comprehensive plan provided by bureaucrats, the parties in the bourgeois coalition each advanced mutually inconsistent and often incoherent proposals. Lacking the votes and a plan, and with elections occurring on average every two years in the 1980s, the bourgeois coalition achieved very little institutional change. Instead they bludgeoned welfare state producers located in local government to lower costs.

Denmark's Social Democratic Party faced the same tensions as the other left parties, but being in opposition made it easier to handle them. The Social Democrats hid behind the bourgeois coalition, throwing sup-

[43] Erik Damgaard, "Denmark: Experiments in Parliamentary Government," in Damgaard, ed., *Parliamentary Change in the Nordic Countries* (Oslo: Scandinavian University Press, 1992).

[44] See, for example, Christine Ingebritsen, "Scandinavia in Europe: Markets and Security" (Ph.d. diss., Cornell University, 1993).

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port to Conservative Party proposals for more businesslike management of the public sector while containing more right-wing proposals by Venstre. The fact that many public sector workers already voted for the Socialist People's Party externalized much of the dissent which the left parties in the other three countries internalized. Passivity enabled the Danish Social Democrats to survive the 1980s more or less intact with their historical vote share, but it also kept them out of government for a decade.

Despite this, the conflicts dividing Sweden's SAP were latent in the Danish Social Democratic Party. Its right wing, oriented more toward skilled workers, argued that public sector inefficiency was the problem, suggesting competition among public sector service providers as the solution. Its left wing, oriented more toward unskilled and particularly unskilled public sector workers, argued that unresponsiveness and overbureaucratization was the problem, suggesting self-management by public service employees as the solution. In 1992 the centrist head of the Social Democratic Party was replaced by the more market-oriented Poul Nyrup Rasmussen; when the Social Democrats regained power in 1993, they signaled that they would continue the old bourgeois government's policies. They are now exposed to the same tensions that affected the other left parties, and to the same lack of votes and plans that hindered the bourgeois coalition.

Events in all four countries suggest that at the extreme reorganization is self-limiting. While greater autonomy gave New Zealand Labour more opportunities to impose institutional change, it also permitted that party to undermine its own electoral base. In contrast, while the structural restraints imposed by federalism on the ALP dictated a more incremental and cooperative approach, this allowed the ALP to keep its electoral base intact. In Sweden, the SAP's internal disunity prevented it from taking advantage of the opportunities available to it. Nonetheless even if negotiation can attain fiscal restraint, some autonomy is necessary in order to achieve institutional change, as events in Denmark show. Institutional change threatens people's and agencies' long-term interests in a way that fiscal restraint does not.

IV. Conclusion

Most of these changes are comparatively recent, and it is difficult to assess their long-term consequences. As the coalitions pushing for reorganization had different aims, it is perhaps best to sort out the consequences in terms of those aims. Doing so will make it clear that the international economic pressures that motivated coalition members to seek reorganization

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have caused changes in the political regime and not just in bits and pieces of administrative practice. The effort to transform the *institutional* nature of the welfare state distinguishes these four countries. The changes described tend above all to increase state autonomy by changing the boundaries between state and society or by changing they way actors calculate their interests. In this sense, the general pattern of change in these four countries mirrors that occurring in indebted developing countries under the auspices of the International Monetary Fund.[45]

From the point of view of the unions and capital in the tradables sector, reorganization has successfully removed part of the threat to their interests posed by the insulation of public sector unions and of the public sector in general from market pressures. Incentive pay, greater wage differentiation, managerial freedom, and competition in service provision have all helped check public sector growth and weakened the bargaining position of public sector workers. Cumulatively, these changes have transformed nontradables into tradables. For example, an American multinational successfully bid when Brisbane (Australia) contracted out garbage collection, just as French firms now manage several British public utilities. The internationalization of the management of services means that the providers of (publicly funded) services are no longer sheltered from international competition. International competition exists in this sector once a market exists and once management can be contracted out.[46] Letting relative costs get too far out of line invites a tender for the business. This makes it difficult for the interests of workers and (where present) capital in the public sector and other former nontradables to diverge much from those of capital and labor in tradables when it comes to the macroeconomic consequences of firms' or unions' pay demands. Conversely, it makes it easier for the state to resist these wage demands.

The politicians who promoted reorganization can be less sanguine. If general elections have tended to confirm the general policy line taken by the governments of the 1980s, they have not confirmed their hold on power. New governments elected in 1990 in New Zealand, 1992 in Sweden, and 1993 in Denmark have maintained or accelerated the pace of change. Only in Australia did the original party favoring reorganization retain power. This is not to suggest that these administrative changes have had no political consequences. Rather, it suggests (1) that these changes are creating a social base supporting reorganization and a reorganized

[45] See Miles Kahler, "Orthodoxy and Its Alternatives," in Joan Nelson, ed., *Economic Crisis and Policy Choice* (Princeton: Princeton University Press, 1990); and Herman Schwartz, "Can Orthodox Stabilization and Adjustment Work?" *International Organization* 45 (Spring 1991).

[46] This is particularly true in the post-1992 European Community, as public procurement must be open to firms from all EC members.

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state, much as the institutionalization of the old welfare state once helped maintain a broad cross-class alliance, and (2) that no party can win without appealing to that alliance. Only this kind of calculation can explain why in both Denmark and New Zealand new governing parties have suppressed and in one case expelled internal antireorganization dissenters. The debate no longer pits the status quo against reorganization—its pits reorganization with a human face against reorganization with a harsh face.

On the whole, though, politicians in central government are all losers. As Alan Wolfe and others have noted, over time all problems in society became problems of the welfare state, and thus all welfare state failures became political failures.[47] This created opportunities for politicians to meddle in agencies on behalf of individual constituents and articulate demands on behalf of any organized group. Service failure in marketized states signals only the failure of a particular service producer who can be replaced via consumer exit in the short run and via competitive bidding in the long run. Competitive bidding also forces politicians to consider the visible costs of demanding additional services on behalf of particular groups. So politicians have lost part of their ability to meddle on behalf of constituents.

In contrast, fiscal bureaucrats—and the core bureaucracies of the state—thus appear to be the biggest winners. They have gained control over the total budget without having to bear responsibility for the problems that will inevitably occur in service provision.

These reorganizations have all increased the autonomy of the state in ways that are very similar to the kind of autonomy created by economic liberalization. Economic deregulation and liberalization during the 1980s freed the state from the political costs of policy failure in the economic arena and from the obligation to make microeconomic interventions that contradicted their macroeconomic policies.[48] The effort to introduce market pressures into the welfare state parallels economic deregulation in this regard, aiming to extricate the state from the management of social problems. Decentralization and the introduction of market mechanisms creates two "circuit breakers" that increase autonomy: one between consumers and producers, as consumers can opt to change their producer; and one between producers and the state, for producers have no legitimate excuses for not producing "competitively."

These circuit breakers remedy two problems commonly noted in the literature on the welfare state.[49] These were the tendency toward agency

[47] Alan Wolfe, *Whose Keeper* (Berkeley: University of California Press, 1989).

[48] Loriaux (fn. 1); Ikenberry (fn. 1).

[49] For general but diverging discussions of agency capture, see Buchanan, Tollison, and Tullock (fn. 6); and Claus Offe, "The Divergent Rationalities of Administrative Action," in *Disorganized*

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capture by clients and its related overproduction of services; and the unresponsiveness of bureaucratic service producers to specific "consumer" demands. The first made the welfare state expensive and expansive; the second decreased state autonomy and legitimacy.

The decentralization of service provision and the "sale" of services constructs services as discrete demands provided to individual customers, rather than as diffuse benefits available to classes of people. This tends to limit societal demands for services. To the extent that individuals are capable of purchasing services from state agencies under the new user-pays regime, they have no need to join collective actors in order to press for services. Consequently, as individuals opt out in search of individual satisfactions, the demand for collective actors diminishes. At the same time it makes agency capture more difficult, since agencies have no incentive to use services to create clients and support groups. Agencies (and firms) contractually bound to produce certain outputs at a bid cost have an incentive to create *customers*. Customers typically use exit, not voice, to signal dissatisfaction; and to the extent that they use voice to influence local public service providers, political confrontations will occur outside the central state.

So finance ministries have shifted the border between state and society. They have shifted the welfare state out into society by subjecting state agencies and local government to market disciplines. At the same time the separation between contracting agencies and service producers reinstates a border between the fisc and the welfare state. The decentralization of service provision shifts conflicts over (declining) resources out of the central state and into local governments.

All of the countries examined here are small economies and, Sweden aside, vulnerable to price swings in the commodities they export. The very extremity of their situation might suggest that the kind of state reorganization occurring here would be limited. That certainly was Peter Katzenstein's argument about small countries in the 1970s, where he suggested that political *rigidity* enabled a surprising degree of economic flexibility.[50] But in this case international pressures seem to have had a different effect: declining international competitiveness generated a coalition determined to change political arrangements and the state. The greater

Capitalism (Cambridge: MIT Press, 1985). For the classic elaboration of the "overload" thesis, see Michel Crozier, Samuel Huntington, and Joji Watanabe, *Crisis of Democracy*? (New York: New York University Press, 1975). Each country has developed a parallel literature: Pusey (fn. 24); Geoff Bertram, "Middle Class Capture: A Brief Survey," in Royal Commission on Social Policy, *Future Directions* (Wellington: Government Printer, 1988), vol. 3, pt. 2; Treasury (fn. 39, 1984 and 1987); Erik Albæk and Peter Munk Christiansen, "Velbjægsstaten?" GRUS, no. 28 (October 1989); and SAMAK, *Fornya dent Offentliga Sektorn!* (Stockholm: Xerox 1985).

[50] Katzenstein (fn. 11).

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vulnerability of the economies of these states has caused change to occur earlier than in other countries, but competition in international markets is increasing, putting more pressure on the tradables sector everywhere to cut costs. Services related to the reproduction of the labor force remain the single largest nontradable everywhere. Most of these services are handled by the welfare state and financed through taxes, making it difficult to contain costs and produce services efficiently. The analysis in Section III suggests that relatively autonomous states are more likely sites of successful efforts to further increase autonomy through the kinds of reorganization described above. But whether or not the terrain is suited to reorganization, the pressure to try it will be felt everywhere. Thermidor in Britain and Clinton's election in the United States give a misleading impression about the future. Thatcher may be gone, but where constructed the institutions of Thatcherism live on and will inspire imitation.

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FINANCIAL INCENTIVES AND CENTRAL BANK AUTHORITY IN INDUSTRIALIZING NATIONS

By SYLVIA MAXFIELD *

CENTRAL banks shape monetary policy, affect exchange rates, and guard financial stability. They have an impact on economic variables that are crucial to national development and growth and also play a role in determining the nature of international financial and monetary cooperation. Coordination of monetary policy is increasingly necessary to maintain stable exchange rates and international capital flows. A credible international commitment to monetary policy coordination requires a guarantee of central bank authority and independence from government. The actions and capacity of a central bank are also an important signal to national creditors, whether purchasers of government paper, private international banks, or bilateral/multilateral lending agencies. Creditors see the independence of the central bank as an important factor in determining the likelihood that a nation's economic policy will promote the growth necessary for generating national income and the capacity to repay debts.

For all these reasons the study of central banks, particularly in advanced industrial countries, is burgeoning.[1] Much of the new scholarship seeks to extend "positive theories of economic policy" to central banking, monetary

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[1] Among the most recent studies are Alex Cukierman, Steven B. Webb, and Bilin Neyapti, "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes," *World Bank Economic Review* 6, no. 3 (1992); Alex Cukierman, *Central Bank Strategy, Credibility, and Independence: Theory and Evidence* (Cambridge: MIT Press, 1992); Alberto Alesina and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money and Banking* 25 (May 1993); and John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, N.Y.: Cornell University Press, 1992); Adam Posen, "Why Central Bank Independence Does Not Cause Low Inflation," in R. O'Brien, ed., *Finance and the International Economy* (Oxford: Oxford University Press, 1993).

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policy, and inflation.[2] One question in particular has spurred the growth of this research: how institutional structures create incentives for and against inflation. This question led researchers to focus on the independence of central banks. Preliminary investigation indicated that central bank independence was an important precondition for macroeconomic stability because it insulated the economy from political pressures for expansionary economic policies.[3]

The finding of a correlation between central bank independence and low inflation in advanced industrial countries holds out tantalizing hope of a cure for inflation in developing countries. Yet two problems confront institutionalist approaches to central banking in developing countries. First, formal, or legal, central bank independence does not appear to be related to low inflation in developing countries; that is, there is a considerable disjuncture between formal independence, on the one hand, and actual central bank behavior and capacity, on the other. By contrast, de facto authority *does* appear correlated with low inflation.[4] The second problem in the literature follows from the first. If legal independence does not necessarily explain the likelihood of successful anti-inflationary efforts by a central bank, one needs to look elsewhere for an explanation of central bank behavior and capacity.

This article contends that the interests and capacities of early central banking institutions are shaped by the financial interests of those in a position to delegate authority to central banks: government politicians and private banks. Central banks both reflect and reinforce financial interests and structures. Thus, ongoing national patterns in central bank authority stem from the incentives financial structures impose on government politicians, private financiers, and industrialists and not from the independent causal weight of law.

The Limits of Legal Institutionalism

Formal independence is defined by the legal stipulation to that effect in central bank charters. Table 1 reproduces the results of a pioneering study of central bank independence showing that legal central bank indepen-

[2] For an introduction to positive political economy, see James E. Alt and Kenneth A. Shepsle, *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990).

[3] Vittorio Grilli, Donato Masciandaro, and Guido Tabellini, "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries," *Economic Policy*, no. 13 (1991), 344.

[4] Research on the connection between growth and central bank characteristics, using a measure combining central bank independence and informal authority, finds that while there is no evidence of a positive correlation for advanced industrial countries, data do suggest one for developing countries. See Alex Cukierman et al., "Central Bank Independence, Growth, Investment and Real Rates," *Carnegie-Rochester Conference on Public Policy* 39 (Autumn 1993).

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TABLE 1

REGRESSIONS OF LEGAL CENTRAL BANK INDEPENDENCE AND INFORMAL CENTRAL BANK AUTHORITY ON INFLATION (1950–89)

	Industrial Countries	*Developing Countries*
Legal independence [a]	–0.06	0.01
significance level	5%	not significant
T-statistic	–2.54	0.11
Informal authority [b]	–0.08	0.28
significance level	10%	1%
T-statistic	–1.81	4.80

SOURCE: Excerpted from Cukierman, Webb, and Neyapti (fn. 1), 372.

[a]Legal independence is an aggregated index of differentially weighted aspects of independence stipulated in central bank charters. (See Table 2.)

[b]Informal authority is governor turnover. Inflation is transformed (geometric decade average of annual inflation divided by one plus annual inflation) to reduce the weight of outliers.

dence is insignificant in explaining inflation for a set of fifty-one developing countries. Table 2 lists the different aspects of the comprehensive index of legal independence used in that study. As Table 3 suggests, the actual inflation-fighting authority of central banks may deviate substantially from their legal independence. Informal authority, measured by the extent of turnover of central bank governors, appears a better predictor of low inflation in developing countries, as Table 1 reports.

The concept, as well as the measure, of central bank independence is problematic. The authority of the central bank vis-à-vis government politicians shapes its ability to guard against inflation. The central bank's effective exercise of authority to prevent inflation requires a special relationship with potential proponents of expansionary policy that is not well characterized as independence. The respect other government officials and political leaders have for central bank policy positions may be founded upon close social and/or political relations rather than upon the bank's independence or autonomy. Thus, on the one hand a central bank may be formally independent but nevertheless unable to carry out effective anti-inflationary policies because it is not influential in the formulation and implementation of policy by other government agencies.[5] Greider, in his study of the U.S.

[5] Autonomy may not facilitate capacity. Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard and Robert R.

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TABLE 2
COMPONENTS OF LEGAL INDEPENDENCE

	High Independence	*Low Independence*
Rules stipulated in central bank charter		
Terms of governor appointment	long term	short term
	little executive branch role	large executive branch role
Policy process	bank has final word in conflict with executive	executive has final word in case of conflict
	bank alone formulates monetary policy and has active role in budget process	bank has no role in budget process
Central bank objectives	price stability preeminent	conflicting goals stipulated
Central bank lending to government	low, stipulated in absolute cash terms	high, specified as percentage of government spending

TABLE 3
MEASURES OF LEGAL INDEPENDENCE AND INFORMAL AUTHORITY OF CENTRAL BANKS
(1950–81)

	Composite Index of Legal Independence [a]	*Central Bank Governor Turnover* [b] *(per year)*
Thailand	.27	.20
South Korea	.27	.43
Brazil	.21	.68
Mexico	.34	.16

SOURCE: The table is constructed from data in Cukierman, Webb, Neyapti (fn. 1).

[a]The index range is from 0 (no independence) to 1 (greatest independence). Actual values for a set of 72 developing and developed countries range from the high of .69 for the German central bank to a low of .10 for the Polish central bank.

[b]Average number of changes per year. See Table 4 for a broader sample.

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Federal Reserve, likens this problem to having "a car with two drivers."[6] On the other hand, however, a central bank may lack some of the formal trappings of independence but have strong influence over other government economic policy-making agencies, such as the Finance Ministry or the Treasury, which allows it to have significant policy influence.

Central bank authority is probably best evaluated by using classic indicators of power: number of instances in which a central bank achieves compliance with its policy preferences from those opposed and, more subtly, number of instances in which a central bank manages to keep opposing policy options off the policy agenda entirely. These sorts of measures of central bank authority are difficult to attain for large numbers of country cases or for long periods of time in a single country. The frequency of governor turnover is a more easily measured index of central bank authority.[7] It is not ideal, however, because a central bank governor may enjoy a long tenure precisely because he or she is subservient to government politicians. Above some turnover threshold, however, the likelihood is high that the tenure of the central bank governor will be shorter than that of the executive branch. This makes the governor more susceptible to interference from government politicians because he or she has less time to seek allies opposed to such interference. It also discourages central bank governors from implementing inflation-fighting policies, which often take a relatively long time to pay off.

The disjuncture between formal independence and actual inflation-fighting capacity is clear in the developing country cases examined in this article: Thailand, Mexico, Brazil, and South Korea. Judging by the low level of the Bank of Thailand's legal independence, for example, its ability to achieve macroeconomic stability should be relatively low. By the Cukierman et al. composite measure of legal independence, Thailand ranks .27 compared with .69 for the most legally independent central bank in the world: the German Bundesbank. The Bank of Thailand charter makes no mention of central bank autonomy. The executive branch has unconditional discretion to dismiss the governor, and the bank has no legal role in the budget process or legal authority over the formulation of monetary policy. Government borrowing from the central bank is relatively unrestricted.

In reality, however, in terms of its ability to influence economic policy broadly, the Bank of Thailand *is* one of the strongest central banks in the world. This is evident in its traditional, if not legally guaranteed, role in the

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Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992).

[6] William Greider, *Secrets of the Temple* (New York: Simon and Schuster, 1987).

[7] Data on governor turnover for fifty developing countries has been collected by Cukierman, Webb, and Neyapti (fn. 1).

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national budget process. Discussions over the federal budget in Thailand begin with a meeting between the central bank, the Ministry of Finance, and two nonministerial agencies closely linked to the prime minister: the Budget Bureau and the National Economic and Social Development Board (NESDB). The bank presents its estimate of the maximum possible government spending consistent with monetary stability. Over the course of several meetings there may be some dispute about the ceiling set by the bank, but the bank almost always prevails. And in policy disputes with the military the bank has also often won.[8]

As Table 3 shows, governor turnover at the Bank of Thailand indicates greater comparative central bank authority than does legal independence; it more accurately reflects the bank's actual power vis-à-vis politicians and the government. Governor turnover puts the Thai central bank in the highest quintile on the authority scale, while the measure of legal independence places the central bank in the bottom 50 percent.

The problem with using legal independence as a comparative indicator of central bank authority is reinforced by another case. The legal independence of the South Korean central bank is the same as that of the Bank of Thailand, yet the Bank of Korea has very little actual authority. In South Korea a central planning agency, the Economic Planning Board, is closely allied with the Finance Ministry, and together the two agencies control virtually all economic policy. By contrast, the central bank does little more than implement credit policies in line with overall government spending plans. The Bank of Korea is commonly called the "Namdaemun *branch* of the Finance Ministry," a reference to the Seoul district in which the bank is located. In contrast to Thailand, governor turnover at the Bank of Korea has been relatively high. In the 1950s those governors who were not subservient to the military were often gone from the governorship within months of assuming the position.[9] It seems then that data on governor

[8] The most public source of disagreement was over the role of military personnel on the boards of commercial banks. In one instance Puey tried to encourage two generals on the board of the failing Thai Development Bank to intervene; they refused and the bank became insolvent. Chagrined, the generals reportedly apologized to Puey for their obstinance. Interview with Prachitr Yossundara, Bangkok, July 19, 1991.

[9] Yoo Taek Kim, the second governor of the Bank of Korea, publicly repudiated government efforts to change the bank charter and was forced to resign. Wi Hwan Bae, the fourth governor, in office from June 1960 to September 1960, refused to channel bank resources into the military party's campaign fund. Chang Soo Yoo, the sixth governor, in office from May 1961 until May 1962, refused a government financing request and was forced to resign. Byung Do Min, the seventh governor, in office from May 1962 until June 1963, resigned decrying government efforts to move commercial regulatory authority from the central bank to the Ministry of Finance. Author interviews with Chung Soo Yoo, October 25, 1991, and Wi Hwan Bae, October 30, 1991, Seoul. Details are also found in Suk Ha Shin, "Chunganguenhaengui Dongnipsungae Kwanhan Yeonkou" (A study of the independence of the Bank of Korea) (M.A. thesis, Seoul National University, 1991); Jung Ryun Kim, *Thirty Years' History of Economic Policies* (Seoul, 1991).

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turnover are better than legal measures at capturing de facto differences in Thai and South Korean central bank authority.

The legal measure of Brazilian central bank authority places it relatively close to the Bank of Thailand. Yet again there is a disjuncture between legal independence and inflation-fighting behavior and capacity. The Brazilian central bank has rarely succeeded in conducting inflation-restraining monetary policy or curtailing the government's use of inflationary policy. The Brazilian central bank is still struggling to build an institutional identity and centralize monetary control, in a context where there is no central control of national spending. It was not founded until 1964 and has had to compete for a voice in economic policy-making against numerous other public and semipublic institutions with fiscal and monetary autonomy, such as the nation's partially state-owned and largest commercial bank, the Banco do Brasil. Until recently, for example, the Banco do Brasil had an automatic overdraft account at the central bank; this commercial bank could get no-interest loans from the central bank on demand. The authority of the National Monetary Council (CMN), equivalent to the Federal Reserve Board in the United States, is limited by heavily politicized debate among different sectoral interests legally guaranteed representation on the council. Lacking authority with other state agencies, central bank personnel in Brazil have frequently tried, but failed, to implement monetary stabilization programs.[10]

Measurement of the Bank of Mexico's legal independence places it significantly above Thailand, even though in practice the Bank of Thailand has had consistently greater capacity to restrain inflation than the Bank of Mexico. As in Thailand, there are no legal limits on government borrowing from the central bank. The governor can be dismissed only under extreme circumstances involving gross misconduct. And although the central bank has no legal role in the budget process, the government is legally bound to consult with it in formulating monetary policy. Although the Bank of Mexico wielded considerable authority from 1954 until 1970, the support of the Finance Ministry and of political leaders has been critical to the Mexican central bank's success at restraining inflation in the face of those pressing for expansionary policies. Again, governor turnover, which ranks Mexico and Thailand relatively similarly, is better at capturing the reality of central bank authority.

There is another problem with extending the institutionalist literature on central banks in industrialized countries to those in developing countries beyond these questions of how to define and measure the inflation-

[10] Deepak Lal and Sylvia Maxfield, "The Political Economy of Stabilization," in Robert Bates and Anne Krueger, eds., *The Political Economy of Structural Adjustment* (London: Basil Blackwell, 1993).

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fighting interests and capacities of central banks. In order to understand the likelihood of inflation in different developing countries, researchers need to explore sources of central bank interest and capacity. Yet research on the sources, as opposed to consequences, of the involvement of central banks in the making of economic policy have focused on legal independence. Even this body of research is relatively limited.[11]

Financial Incentives and Central Bank Behavior

There are two stereotypes about central bank origins. "In every Western setting," writes Woolley expressing one of these stereotypes, "central banks emerged as a response to needs for a central institution to serve other banks."[12] If this is the predominant reason for the birth of central banking institutions, why would such institutions ever have emerged in developing countries where, in contrast to advanced industrial countries, private financial markets have always been undeveloped? The typical answer is that central banking institutions in developing countries are born in response to the financial needs of government.[13] In reality there is more diversity in patterns of central bank founding, although—as these two stereotypes suggest—two key variables shape emerging central banking institutions: the nature of private financial markets and the sources of public finance. In other words, the greater a government's need for financing beyond what private financial markets offer, the less conservative and authoritative the central bank.[14]

This argument not only follows the familiar logic of models driven by rational interest-maximizing actors constrained by structure, but it also implies a mutually reinforcing relationship, or equilibrium, between structure and action. Financial structures, which often reflect a nation's histori-

[11] One frustrating example is Clark's effort to explain central bank independence in developing countries in the context of "nested games." He argues that in a game between a stability-oriented central bank and an expansion-preferring fiscal authority, the central bank will be most powerful when it has the first move. There is no discussion, however, of what shapes the rules regarding the sequence of play. See William Roberts Clark, "Institutional Choice as Nested Games: Central Bank Independence in Developing Countries" (Paper delivered at the annual meeting of the American Political Science Association, Chicago, September 3–6, 1992).

[12] John T. Woolley, "Central Banks and Inflation," in Leon N. Lindberg and Charles S. Maier, eds., *The Politics of Inflation and Economic Stagnation* (Washington, D.C.: Brookings Institution, 1985), 319.

[13] S. Gethyn Davies, ed., *Central Banking in South and East Asia* (Hong Kong: Hong Kong University Press, 1960).

[14] Pointing to the nature of private financial markets and government financial needs echoes a version of "domestic structures" political economy arguments that attribute multifaceted explanatory power to the structure of financial markets. Hall, for example, argues that the likelihood of political leaders adopting Keynesian economic ideas and policies is shaped by "the kind of financial instruments that each state developed to fund its debt, the regulatory regime imposed on the banking sector and the general character of the capital markets." See Peter A. Hall, *The Political Power of Economic Ideas* (Princeton: Princeton University Press, 1989), 380.

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cal propensity to inflation, create incentives for political leaders to encourage or discourage emergence of authoritative central banking institutions. Where domestic financial markets are weak, an important source of noninflationary government finance is eliminated. Where governments must print money to finance expenditures, the resulting inflation inhibits development of strong private financial institutions. The nature of early central banking institutions reinforces the existing financial structure and inflation propensity, which in turn reinforces politicians' incentives. Once it is embarked on, it is hard to deviate from the path of inflation, poorly developed domestic financial markets, and large need for central bank finance of government.[15]

Central banking institutions, or their precursors, founded by states seeking to resolve their own fiscal problems, can anticipate a future of bailing out the government and/or weak commercial banks overburdened with increasingly devalued government bills and bonds. The government's financial prospects dictate its willingness to delegate authority to the central bank. Where government deficits relative to revenue are high, government typically seeks a central bank that is subject to close executive direction and unrestrained in its ability to finance the state and other favored actors. This is consistent with Cukierman's hypothesis that the greater a government's financial needs relative to resources and/or the larger its internal debt, the less likely there is to be an independent central bank.[16]

Where government deficits relative to revenue are low, government has less need for a suppliant central bank. There is then greater likelihood that the private financial community will be robust and will take the lead in founding a central bank designed to serve its interests by maintaining overall monetary stability, guaranteeing private bank transactions, and restricting excess competition among private banks. As with politicians, the financial position of private banks shapes their preferences for central bank policy and authority. Private banks that are financially sound are interested in an authoritative, conservative central bank, a suggestion that echoes Cukierman's hypothesis that the more robust private financial markets, the more likely central bank independence. For Cukierman, the causal logic behind this correlation is as follows: the more developed private financial

[15]"Once a financial system is created," Henning writes, "the capacity for rapid change is severely limited. The developmental state is the prisoner, in all but the long run, of its past decisions on financial structures." See C. Randall Henning, "Finance, Industry and External Monetary Policy" (Mimeo, International Institute for Economics, September 1991), 55.

[16] Cukierman (fn. 1), 450. Under these circumstances the government will delegate authority to the central bank only to the extent it perceives the need for credibility in the eyes of potential private creditors who in turn seek central bank authority as a signal of government intentions. See Sylvia Maxfield, "International Sources of Central Bank Convergence in the 1990s" (Paper prepared for the meeting of the Latin American Studies Association, Atlanta, March 10–12, 1994).

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markets are, the more costly is inflation; and central bank independence is perceived as a bulwark against inflation.[17] In other words, the more robust private financial markets, the more private financiers will feel they have to lose if they do not work to establish and/or preserve central bank independence.

The more financially vulnerable banks are, the more they depend on central bank largesse—in the form of loans, regulations, or reduced reserve requirements—to keep them afloat and the greater their preference for loose monetary policy and state intervention in financial markets. In contrast to a financially autonomous banking sector, a financially dependent banking sector tends to prefer a central bank unrestrained in its ability to print money and subsidize private actors.

Continuity in central bank authority is also reinforced in another way. The financial situation of industrialists and their preferences regarding central bank policy and authority are likely to evolve differently depending on the original circumstances under which the central bank was founded. Where private financial markets are relatively weak, industrialists are likely to rely on government credit. In this case industrialists have an interest in a central bank that is suppliant to government mandate, and politicians can easily curry favor with industry through direct or indirect provision of subsidized credit. Government inducement of banks to lend according to nonmarket criteria is likely to reinforce weakness of the private banking sector.

Empirical Illustrations

The particular case studies presented to substantiate this argument were chosen according to the logic of Mill's "indirect method of difference."[18] This method attempts to approximate experimental design with nonexperimental data through careful pairing of cases. It involves three steps: pairing of "positive" cases, pairing of "negative" cases, and pairing of cases to test for competing single-factor explanations. I chose two "most different" cases of great central bank authority, as measured by the admittedly limited indicator of governor turnover: Thailand and Mexico; and two "most different" cases of low central bank authority: South Korea and Brazil.[19]

[17] Cukierman (fn. 1), 449–50.

[18] John Stuart Mill, *A System of Logic: Ratiocinative and Inductive* (1893; Toronto: University of Toronto Press, 1967); Adam Przeworski and Henry Teune, *The Logic of Comparative Social Inquiry* (New York: Wiley-Interscience, 1970); Charles C. Ragin, *The Comparative Method: Moving beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press, 1987).

[19] These four cases raise questions, tangential to this article, about the relationship between financial market intervention and growth. See Stephan Haggard, Chung Lee, and Sylvia Maxfield, eds., *The Politics of Finance in Developing Countries* (Ithaca, N.Y.: Cornell University Press, 1993).

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Thailand and Mexico have different cultural heritages. Mexico's population and GNP have been consistently larger than Thailand's. Thailand had an agricultural export economy until very recently, while Mexico began to pursue an aggressive industrialization strategy in the 1940s. Regime and government changes have been frequent and unpredictable in Thailand; Mexico has enjoyed one of the longest-lasting single-party democracies in history.

The differences between South Korea and Brazil are equally great. Cultural heritage could not be more different in the two countries. South Korea moved quickly from limited import-substitution industrialization to export-oriented industrialization. Brazil's continental economy and government policy have long encouraged import substitution over export promotion. Regime and government changes have been significantly higher in Brazil than in South Korea.

These paired-case studies indicate an invariant relationship between government financial needs—in turn related to the nature of private financial markets—and central bank policy orientation and authority. In the two cases of weak central banks we find a revenue-needy government playing a large role in central and proto–central bank founding and a financially weak private banking sector. Lack of authority is reinforced over time by the continued relative financial weakness of private banks and an industrial sector that is relatively reliant on government-subsidized credit. In the two cases of strong inflation-fighting central banks we find a relatively healthy private banking community that plays a large role in central and proto–central bank founding. This is reinforced over time by the continued existence of a healthy private banking sector and relatively heavily self-financed industrialists.

Authoritative Inflation-fighting Central Banks: Thailand and Mexico

The authority of the Bank of Thailand over the Thai federal budget process is exceptional when compared with the situation in other developing countries. Although not as striking, Mexican central bank authority is also great, particularly by Latin American standards. (See Table 4.) In these two otherwise very different country cases we find similarities in the financial imperatives shaping the early history of central banking and the financial status of banking and industry over time. In both cases government politicians had little need for a central bank as government financier. Private financial institutions were relatively strong and in both cases proto–central banks evolved out of existing private banks. Central bank conservatism and authority was reinforced over time by the continuing

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TABLE 4
CENTRAL BANK AUTHORITY IN DEVELOPING COUNTRIES
(AVERAGE GOVERNOR TURNOVER PER YEAR, 1950–89)

Argentina	.92	Morocco	.11
Bahamas	.10	Nepal	.24
Barbados	.06	Nicaragua	.27
Botswana	.21	Nigeria	.13
Brazil	.67	Pakistan	.25
Chile	.46	Panama	.19
Colombia	.20	Peru	.33
Costa Rica	.58	Philippines	.11
Egypt	.31	Poland	.27
Ethiopia	.15	Portugal	.21
Ghana	.20	Qatar	.04
Greece	.19	Romania	.20
Honduras	.15	Singapore	.15
Hungary	.20	Thailand	.21
India	.30	Turkey	.40
Indonesia	.22	Uganda	.27
Israel	.15	Uruguay	.43
Kenya	.14	Venezuela	.30
Korea	.40	Yugoslavia	.23
Lebanon	.15	Zaire	.18
Malaysia	.07	Zambia	.28
Malta	.21	Zimbabwe	.17
Mexico	.15		

SOURCE: From data compiled by Cukierman, Webb, and Neyapti (fn. 1).

strength of private banking and the relatively low dependence of industrialists on subsidized credit.

CENTRAL BANK ORIGINS: PRIVATE BANKING

The first proto–central banking institution in Thailand grew out of Finance Minister Mahit's efforts in the 1890s. As Table 5 indicates, government finances were relatively sound, providing no incentive to create a central bank to support government expenditure. But foreign banks dominated banking in Thailand, exercising a monopoly over trade finance.[20]

[20] These were branches of the British Hongkong and Shanghai Banking Corporation, the British Chartered Bank of India, and the French Banque de l'Indochine. See Ian Brown, *The Elite and the Economy in Siam c. 1880–1920* (Oxford: Oxford University Press, 1988), 124–25; Frank H. King, *Eastern Banking: Essays in the History of the Hongkong and Shanghai Banking Corporation* (London: Athlone Press, 1983).

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TABLE 5
AVERAGE ANNUAL GOVERNMENT DEFICIT RELATIVE TO GOVERNMENT REVENUE
(GOVERNMENT REVENUE-EXPENDITURE/GOVERNMENT REVENUE)

	Korea	*Thailand*	*Brazil*	*Mexico*
1890s	nd	−.02	−.28	−.01
1900s	−.58	−.04	−.47	.11
1910s	−.51	−.06	−.41	nd
1920s	−.39	−.10	−.17	−.05
1930s	−.17	−.03	−.23	−.01

SOURCES: Calculated from B. R. Mitchell, *International Historical Statistics Africa and Asia* (New York: New York University Press, 1982); Instituto Nacional de Estadística Geografía e Informatica, *Estadísticas Historicas de Mexico*, vol. 2 (Mexico City: Secretaría de Programación y Presupuesto, 1985); and Armin K. Ludwig, *Brazil: A Handbook of Historical Statistics* (Boston: G. K. Hall, 1985).

Mahit wanted to create a central bank in order to counterbalance the power of foreign banks in the Thai economy. The foreign banks, together with British advisers to the Thai Ministry of Finance, opposed Mahit's proposal because they did not want to lose their privileged position. In the face of this opposition Mahit began to carry out his bank-building plan in secret. He used his own capital and that of a small circle of wealthy friends, Sino-Thai merchants and tax farmers, to create a bank called the Book Club that opened in 1904.[21] By 1906 this bank was renamed the Siam Commercial Bank. The private Siam Commercial Bank came to operate as Thailand's first quasi central bank. It handled government deposits but did not make loans to the executive branch as proto–central banks routinely did in South Korea and Brazil.

Thailand's first full-fledged central bank, which took over the central banking functions of the Siam Commercial Bank, was not founded until 1941. Limiting the central bank's role in government finance and constraining its ability to be "a panacea for the agricultural depression . . . , by granting loans right and left . . . [and] facilitating inflation of the currency" was central to the 1930s debate over founding a central bank.[22] The direct precursor to the Bank of Thailand was the National Banking Bureau, founded in 1939 as a compromise between those who favored establishing a central bank and those who opposed it for fear of loose government finance and inflation. Ministry of Finance officials suspicious of the developmentalist ideology of central bank proponents were among

[21] The name was chosen to mislead the British into thinking it was a library.

[22] Prince Viwat, "The Bank of Thailand," in Bank of Thailand, *Prince Viwat Cremation Volume* (Bangkok: Bank of Thailand, 1961), 68.

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those opposed.[23] Branch managers of foreign banks also expressed opposition to the idea, just as they had when it was raised in the 1890s. The small size of government deficits bolstered the position of those who feared that a central bank would become a fountain of inflationary finance—there was simply no need for a central bank to finance government. The National Banking Bureau managed loans made by government, received a portion of government funds on deposit, collected checks for several commercial banks, and later controlled foreign exchange, although it "did not attempt to act either as a banker's bank or the manager of the country's monetary affairs."[24]

Foreign pressure was the final catalyst for founding the Bank of Thailand. The Japanese proposed establishing a central bank under their control—as they had done in South Korea prior to the First World War and as they did later in the Philippines and Burma, to further their capacity to exploit colonial and quasi-colonial economies. The existence of the National Banking Bureau and Thailand's nominally independent status allowed the government to put the Japanese off by creating their own Bank of Thailand. Private banks were not directly involved in founding the Bank of Thailand, because founding occurred rapidly in a situation of geopolitical crisis. Nevertheless, the close collaboration of the public and private sectors evident in Mahit's secret effort to found Thailand's first quasi–central banking institution, the Book Club, is typical, with some variation over time, of relations between central bank personnel and private sector bankers in Thailand to date. In the absence of large government deficits requiring central bank finance, central bank behavior reflected the interests of Thailand's private banks.[25]

Like Thailand, Mexico has also had a relatively conservative and strong central bank that has often been able to gain government cooperation with inflation-fighting goals. The first financial institution with central bank functions in Mexico was also the nation's first private bank.[26] The Banco de Londres, Mexico y Sud America, a British bank branch, opened in 1864

[23] Alek A. Rozental, *Finance and Development in Thailand* (New York: Praeger, 1970), 189.

[24] Ibid., 190.

[25] The 1950s and 1960s, when Puey was governor of the Bank of Thailand, was a period of especially close interaction between central and private bankers. The 1962 revision of the commercial banking legislation, for example, was designed through extensive consultation between the Bank of Thailand and private bankers. Interviews with Boonchu Rojanastien, Bangkok, July 20, 1991, Prachitr Yossundara, Bangkok, July 19, 1990, and Chavalit Thanachanan, Bangkok, July 16, 1991; see also Sylvia Maxfield and Patcharee Siroros, "The Politics of Central Banking in Thailand" (Paper delivered at the annual meeting of the Association for Asian Studies, Washington, D.C., April 2–5, 1992).

[26] On pre-1910 Mexican banking, see *100 Años de Banca en Mexico* (Mexico City: Banco de Londres y Mexico, S.A., n.d.); Ricardo Torres Gaitan, *Política Monetaria Mexicana* (Mexico City: n.p., 1944); Ernesto Lobato Lopez, *El Crédito en Mexico* (Mexico City: Fondo de Cultura Económica, 1945).

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and functioned as a commercial bank that issued paper money and handled government banking. The bank's financial situation improved even as eight other private banks opened between 1878 and 1883. In response to a credit crunch and government urging, two of those banks merged in 1884 to form the Banco Nacional de Mexico. The government gave this new bank the right to issue paper money and promised to deny this privilege to any newly formed banks and to limit the activities of existing banks of issue. In return, the bank increased the amount allocated to a low-interest government loan facility inherited from the Banco Nacional Mexicano, one of the two premerger banks. Government funding was clearly part of the motive in granting this initial central banking authority. However, as private financial markets became more robust and government deficits shrank, the role of private bankers in formulating financial laws grew and government financing concerns were overshadowed by the interests of private bankers in the process of central bank institutionalization.

Officials of the prerevolutionary government of dictator Porfirio Díaz had a very close relationship with Mexico's private financiers. Many of them were owners or advisers of the nation's key private banks. For example, Porfirio Díaz's final minister of finance, José Limantour, had a stake in the Banco de Londres. In the absence of strong need to finance government deficits, the interests of private financiers predominated in central banking legislation. Thus, the committee that wrote the 1897 banking legislation was made up almost entirely of bank managers.

Despite a break in this pattern of relatively sound government finance and dominance of private financiers' interests in government financial policy during the revolutionary period (1910–17), this trend was reestablished in the 1920s.[27] Shortly before the end of Obregon's presidency, in 1923, Alberto J. Pani, a Porfirian-era financial technocrat with close ties to prerevolutionary private bankers, became minister of finance. Pani skillfully orchestrated a fruitful collaboration between public and private financiers from which evolved the blueprint for Mexico's postrevolutionary financial institutions. The financial statute established a central bank with a nine-member board of directors comprised of representatives chosen by stockholders from the public and private sectors. Among the private stock purchasers were several banks that retired public sector debt in exchange for stock in the new central bank. These included both the Banco de Londres y Mexico and the Banco Nacional de Mexico. The government appointed

[27] On financial policy debates in the aftermath of the 1917 armed phase of the Mexican revolution, see Hilda Sanchez Martinez, "La política bancaria de los primeros gobiernos constitucionalistas, antecendentes para la fundación del Banco de Mexico," in Leonor Ludlow and Carlos Marichal, eds., *Banca y poder en Mexico (1800–1925)* (Mexico City: Editorial Grijalbo, 1986); and Mario Ramirez, "Y cuando Carranza incautó la banca," in Mario Ramirez et al., *Banca y crisis del sistema mexicano* (Mexico City: Editorial Pueblo Nuevo, 1983).

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five representatives to the board and the private sector stockholders appointed four. To safeguard the influence of the private stockholders, all resolutions had to pass with a seven-member majority. In 1928 the Finance Ministry suggested that private bankers organize themselves into a bankers' association to facilitate public-private financial collaboration. The Mexican Bankers Association developed the reputation of enjoying a more direct channel of communication to the highest levels of the Mexican government than that of any other business organization.[28]

Since the 1920s public and private sector financiers in Mexico have followed a pattern of collaboration that has afforded private financiers a substantial influence on policy. The exceptions to this pattern came during periods of high government deficit in the 1940s and early 1980s, when government had an exceptionally high need for central bank finance.

Continuity: Healthy Private Banks and Self-Financed Industrialists

Private banks in Thailand and Mexico have been relatively sound financially in the post–World War II era, although comparable cross-national data on such traditional indicators as capital/asset ratios are difficult to obtain. The data in Table 6 show that Thai banks depended little on borrowing from the Bank of Thailand. To the extent their funds came from borrowing, it was largely from foreign bank loans. As Table 6 indicates, from 1950 through 1980 borrowing from the central bank, measured as commercial bank debt to the central bank relative to total commercial bank assets/liabilities, comprised an average of 2 percent as compared with 9 percent in Korea, for example. Thai banks also enjoyed a comparatively high ratio of time-to-demand deposits. Another indication of their financial strength is that in the 1960s at least they made fewer loans than their reserves would support. Their assets included a large percentage of relatively short-term trade loans.[29] Their financial strength, measured in relatively stable deposit base and relatively liquid asset structure, particularly in comparison with other countries, made them inflation averse and reinforced their support of an authoritative central bank.

The data presented in Table 6 reveal that in terms of the dependence of Mexican commercial banks on central bank loans, Mexican commercial banks were financially also relatively autonomous. From 1950 through

[28] One indication of public sector regard for private financiers is that the highest-level public sector financial officials invariably attend the annual meetings of the Mexican Bankers Association. They do not attend other business association meetings with any regularity.

[29] Michael T. Skully, *Financial Institutions and Markets in Southeast Asia* (Hong Kong: MacMillan, 1984), 311–17; Rozental (fn. 23), 103–65; G. A. Marzouk, *Economic Development and Policies: Case Study of Thailand* (Rotterdam: Rotterdam University Press, 1972), 380-81.

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TABLE 6
FINANCIAL STABILITY OF COMMERCIAL BANKS
(YEARLY AVERAGE PERCENTAGES)

Central Bank Claims on Commercial Banks/Total Assets	*Brazil*	*Mexico*	*Thailand*	*Korea*
1950s	9[a]	4[b]	.005[c]	6[d]
1960s	6[e]	na[f]	2[g]	8[h]
1970s	9[i]	3[j]	8[k]	31[k]
All years	8	4	3	15
Commercial bank debt to central bank/total assets				
1950s	5[a]	na	.005[d]	8[d]
1960s	5[g]	na	1[g]	6[m]
1970s	9[l]	na	4[k]	14[k]
All years	6	na	2	9

SOURCE: Calculated from data provided by each country's central banks.
[a] 1955–59
[b] 1955–58
[c] 1955, 1958–59
[d] 1958–59
[e] 1960–67
[f] not available
[g] 1960–69
[h] 1960–65, 1967–69
[i] 1971–78
[j] 1970–72, 1974–75, 1977–78
[k] 1970–79
[l] 1970–78
[m] 1960, 1962–65, 1967–69

1980 Mexican central bank claims on commercial banks were on average low, 5 percent of total central bank assets, compared with 18 percent in Korea. A broader look at data on the Mexican banking sector corroborates its relative health. Bank profits and the share of the financial sector in GNP grew rapidly in the 1950–80 period.

While the financial health and autonomy of the private financial sector helps reinforce central bank authority, the financial needs and policy preferences of industry are also important. Industrialists are key to the formation of a strong interest-based group or coalition opposed to central bank orthodoxy: tight monetary policy and limited provision of subsidized development finance. In Thailand industry contributed a relatively small

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portion of total GNP until the 1970s. Until recently Thai industrial development was centered on light manufacturing, which required relatively little large-scale investment finance. Industrialists at least tolerated, if they did not actively support, tight monetary policy because they had relatively little need for large amounts of affordable finance beyond what they could provide themselves from internal enterprise sources. This is reflected in Thai industry's relatively low dependence on financing from beyond the owners' family and close friends, as reported in Table 7. This financing was primarily domestic bank credit, although a very small amount probably came from foreign loans and stock issues. Rozental cites an extensive survey of business financing in the mid-1960s, which showed that 88 percent of initial capital came from entrepreneurs' personal resources and 6 percent from commercial banks. Forty percent of current expenditures were financed by commercial banks.[30]

In another similarity to Thailand, Mexico has had only a small industrial constituency accustomed to subsidized credit. Industry in Mexico is frequently classified into three groups: those based in the north of Mexico, those based in Monterrey, and those based in the Valley of Mexico. The former two groups began to grow long before the state first introduced an organized program of subsidized credit. These two groups developed a pattern of relying mostly on financial resources available from within the enterprise and/or among its owners. The Valley of Mexico group of industrialists did form a constituency dependent from its birth on subsidized credit. But this group accounted for only a minority of Mexico's largest industrial enterprises. Although it came to be used to ensure the political support of Valle de Mexico industrialists, the program of subsidized credit

TABLE 7
INDUSTRY RELIANCE ON BANK CREDIT
(PERCENTAGE TOTAL FINANCE FROM "EXTERNAL" SOURCES 1960s)[a]

Thailand	23%
Mexico	21%
South Korea	75%
Brazil	57%

SOURCES: These estimates are based on data in Rozental (fn. 23), 260, 267; Lim (fn. 61), 39; Ro (fn. 62), 61; Derossi (fn. 32), 113; Navarette (fn. 32,) 527; Goldsmith (fn. 32), 46; Brothers and Solis (fn. 32), 101; Thompson (fn. 32), 150.

[a] Finance from sources other than firm owners or their family and close friends. Due to relatively limited foreign borrowing and virtual absence of new stock offerings in these countries' equity markets, it is safe to assume that most "external" funds are credits from domestic financial institutions.

[30] Rozental (fn. 23), chap. 7.

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begun by the Banco de Mexico in the 1940s was conceived of largely as an anti-inflation measure.[31]

The relatively low reliance of Mexican industrialists on subsidized credit is evident in Table 7. Estimates of internal financing in the 1950s and 1960s place it between 90 percent and 68 percent.[32] The only time-series data available show that internal financing grew from 71 percent in 1950 to 86 percent in 1965, reaching the high of 90 percent in 1970.

Mexico and Thailand have both had relatively authoritative, inflation-fighting central banks. Despite their many differences, these countries share similarities in the variables highlighted to explain central bank policy preferences and authority. In both cases relatively sound government finance, measured by the size of average deficits relative to revenue, meant there was little government incentive to press for a suppliant central bank. As a consequence, early central banking institutions were private financial institutions accorded central banking privileges through negotiations with government. Because government revenue was adequate, the interests of a relatively robust private financial sector dominated central bank institutionalization. Continued support for an authoritative, conservative central bank came from a financially autonomous banking sector and a largely self-financed industrial sector.

Weak Central Banks: South Korea and Brazil

The second pair of cases considered here, South Korea and Brazil, have relatively weak central banks that implemented heterodox monetary policies. While different in many ways, these two countries share similarities in the financial incentives shaping government actions vis-à-vis central bank founding and in the financial incentives available to their banking and industrial sectors over time. Historically, both governments needed a bank

[31] The stereotype of Mexican industry generalizes somewhat unfairly from the situation of Valle de Mexico enterprises that did enjoy subsidized credit during the 1950s and 1960s. Nonetheless credit from the national development bank, Nafinsa, the most notorious source of subsidized credit, went increasingly to public sector enterprises. Government entities themselves were the biggest recipients of low-cost credit, when its distribution was at its peak in the 1970s. Furthermore, comparison of stated government directives for subsidized credit allocation against actual recipients for 1950–80 reveals that manufacturing benefited far less than is commonly believed. For more details, see Sylvia Maxfield, *Governing Capital: International Finance and Mexican Politics* (Ithaca, N.Y.: Cornell University Press, 1990), 66–68; and idem, "The Politics of Mexican Finance," in Haggard, Lee, and Maxfield (fn. 19).

[32] Flavia Derossi, *The Mexican Entrepreneur* (Paris: OECD, 1971), 113; R. Alfredo Navarette, "El financiamiento del desarollo económico," in *Mexico: cincuenta años de revolución* (Mexico City: Fondo de Cultura Económica, 1960), 527; Raymond Goldsmith, *The Financial Development of Mexico* (Paris: OECD, 1966) 46; Dwight S. Brothers and Leopoldo Solis, *Mexican Financial Development* (Austin: University of Texas Press, 1966), 101; John K. Thompson, *Financial Markets and Economic Development: The Experience of Mexico* (Greenwich, Conn.: JAI Press, 1979), 150.

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to finance deficits that far exceeded revenues, as Table 5 shows. The weak financial circumstances of private bankers and industrialists pushed them over time toward a preference for heterodox policies and a central bank subordinate to a government sensitive to their needs for liberal financial policies.

Central Bank Origins: Government Financial Need

In Korea, Japanese colonialism so stunted indigenous entrepreneurship that there were hardly any private financiers to play a role in setting up a central bank at the end of the colonial era. The institutions that had historically served as proto–central banks, with the partial exception of the Industrial Bank of Chosen, were founded, closed, and re-created by foreign government fiat to serve the financial needs of imperial expansion. In the colonial era the bank that most played the role of central bank within Korea was largely devoted to industrial financing rather than to conservative sound money concerns.

In 1905, "with the enormous political and military power of imperial Japan stiff-arming the imperial court," an adviser from the Japanese Ministry of Finance oversaw a currency reform that laid the foundation for Japanese construction of Korean financial institutions designed for the financial benefit of the Japanese government.[33] The Japanese colonial government in Korea ran up high deficits, reflecting Japanese financial exploitation. Under Japanese advisement, and despite at least one alternative indigenous proposal, the Korean government granted the Korean branch of the Japanese Daiichi bank the right to issue a new currency. Daiichi functioned as a central bank until 1909, when its central banking functions were relegated to the Bank of Korea, later called the Bank of Chosen.

Although nominally private banks, until after World War II the main function of South Korea's proto–central bank or state bank, Daiichi, and its replacement, the Bank of Chosen, was to serve the imperial aims of the Japanese government. With Japanese encroachment into Manchuria the Bank of Chosen became the de facto central bank there, where its operations became far greater than in Korea. The bank's virtually total focus on its Manchurian business, including printing paper money, undermined any hope of monetary supervision and control in Korea.[34] In contrast to the

[33] Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991), 25.

[34] The Bank of Chosen's role as imperial bank apparently knew no limits. Woo notes that it established twenty offices in Manchuria and one in New York to raise funds for the Japanese campaign. It was fiscal agent for the Kwantung army and engaged in drug trafficking and smuggling in efforts to undermine Chinese authority. Woo (fn. 33). See also David C. Cole and Yung Chul Park, *Financial Development in Korea, 1945–1978* (Cambridge: Council on East Asian Studies, Harvard University, 1983), 46.

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Mexican case, a relatively clear example of private financiers guiding central bank institutionalization in line with their interests, the Korean case is an example of central bank institutionalization servicing the government's interest in funding expenditures beyond its revenues.

The vacuum left by the Bank of Chosen in Korea was partially filled by the Industrial Bank of Chosen and its subsidiary, Chosen Savings Bank. With funds from Japanese money markets, the Industrial Bank of Chosen began by the 1930s to focus most of its energy on long-term industrial financing. Thus, the institution that most played the role of central bank *in Korea*—the Bank of Chosen played this role primarily in Manchuria—was largely devoted to long-term, low-cost industrial financing. A quasi central bank in the service of industrialists thus became the key model for those who went on to dominate Korean economic development. This historical legacy shaped a central bank starkly different in mission from that of either Mexico or Thailand: industrial development has been the main focus of the Bank of Korea in the postwar era. This has helped create a political constituency of credit-dependent industrialists strongly opposed to any change in Bank of Korea policy goals or authority.

Because it had been very difficult for Koreans to ascend above middle management in Japanese-dominated banks, the situation at the end of World War II was one of "total vacuum . . . no indigenous bankers existed."[35] These previously Japanese-dominated private banks were nationalized. The Bank of Chosen's association with Japanese colonial rule left it discredited in the eyes of the Koreans and U.S. occupation personnel. For a second time in Korean history a foreign government stepped in to institutionalize central banking. Two advisers were sent from the Federal Reserve Bank of New York (then in the practice of lending technocrats to countries trying to found central banks) to create an entirely new central bank for Korea. Advisers Bloomfield and Jensen wrote a charter for the new Bank of Korea stipulating extensive independence in pursuit of low inflation.[36] The ink was hardly dry on this legislation when finance-hungry Korean government politicians began to abrogate the law, firing central bank presidents who failed to provide them with money on demand.

In Brazil, as in Korea, there were no private banks at all when the first proto–central bank was founded; it and its successors were founded by a government seeking to alleviate the state's chronic fiscal problems. As in South Korea, the first proto–central bank in Brazil prior to 1945 was oriented toward meeting the credit needs of the state and of domestic entre-

[35] Interview with Sang Woo Nam, Seoul, August 21, 1990.

[36] Arthur I. Bloomfield, *Banking Reform in South Korea* (New York: Federal Reserve Bank of New York, 1951); idem, "Report and Recommendations on Banking in South Korea," *Monthly Statistical Review*, Bank of Korea, Research Department (June 1952).

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preneurs. This bank, the "first" Banco do Brasil, was founded for the explicit purpose of issuing paper money to compensate for the Royal Treasury's lack of funds.[37] The monarchy liquidated the bank in 1829 to rid itself of the huge debt it owed the bank. The second incarnation of the Banco do Brasil also resulted in part from government efforts to create a guaranteed source of government finance.[38] This "second" Banco do Brasil was supposed to limit new paper issues to twice the amount of cash and gold on hand; this ceiling was almost immediately surpassed, however, and became virtually meaningless. De facto government control of this bank contributed to its excessive issue of money and consequently rising inflation. In 1905 the Banco do Brasil was again reincarnated, emerging from a series of financial crises under majority government ownership.[39] Like its partially privately and publicly owned predecessors, it was given a monopoly on note issue and other government financial business and forced to accept presidential appointment of its top officials.

The financial weakness of Brazil's commercial banks explains why the Banco do Brasil's private stockholders (mostly private bankers) and São Paulo coffee growers (the largest political force in society at the time) favored increasing state ownership and delegation of central banking functions to the Banco do Brasil. They believed correctly that the bank would "have abundant capital" to lend them.[40] Beginning in 1906 the Banco do Brasil became the primary source of funds for the government's coffee price support programs.[41] From then on, the political pressure of São Paulo businessmen, first coffee planters and later industrialists, played a large role in shaping government financing needs and the Banco do Brasil's actions. Beginning in 1917 these sectors began to call publicly for transformation of the Banco do Brasil into an official central bank with all the instruments

[37] Benedito Ribeiro and Mario Mazzei Guimaraes, *History of Brazilian Banking and Financial Development* (Rio de Janeiro: Pro-Service—Editora, 1967), 41.

[38] This government initiative followed a ten-year period during which a handful of private banks were established. These banks issued notes that the public widely accepted, leading to depreciation of government notes. As a result, "when the government needed credit, it was unable to discount its securities in the private banking system." Ribeiro and Mazzei Guimaraes (fn. 37), 78.

[39] Ribeiro and Mazzei Guimaraes (fn. 37); Carlos Manuel Pelaez and Wilson Suzigan, *Historia monetaria do brasil: analise da política comportamento e instituções monetarias* (Rio de Janeiro: IPEA/INPES, 1976); *Historia das instituções financeiras* (São Paulo: Estrella Alfa Editora, 1972); Raymond W. Goldsmith, *Brasil 1850–1984: Desenvolvimento financeiro sob um seculo de inflacão* (São Paulo: Editora Harper & Row de Brasil, 1986).

[40] Steven Topik, *The Political Economy of the Brazilian State* (Austin: University of Texas Press, 1987), 40.

[41] The first programs were temporary: 1906 Taubate Agreement and others in 1917 and 1921. A permanent program was implemented in 1924. The programs were paid for by the federal government except during the period from 1924 until 1930, when they were funded by the state. See Thomas Holloway, *Immigrants on the Land: Coffee and Society in Sao Paulo* (Chapel Hill: University of North Carolina Press, 1980); Antonio Delfmin Netto, O *problema do cafe* (Rio de Janeiro: Ed. Fundacao Getulio Vargas, 1979).

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necessary to meet demands for monetary expansion.[42] By 1930 and the end of the First Republic, the government had created a quasi central bank with the main goal of directly and indirectly supporting the credit-hungry businessmen of São Paulo—mostly coffee growers at first, then industrialists. The financial interests of the Brazilian government and entrepreneurs were so antithetical to conservative central banking that a 1923 British loan negotiation team decided the only way to ensure that Brazil followed sound financial policies was for British creditors to buy the Banco do Brasil.[43] British adviser Otto Niemeyer's intent was similar in his 1931 report on Brazilian financial policy; it included a detailed statute for a separate central bank that would usurp the Banco do Brasil's central banking functions.[44]

In the 1940s, spurred by developments in the international monetary arena and by a desire to avoid a repeat of the inflation of the early 1940s, government technocrats pressed for the creation of a central bank.[45] The Banco do Brasil and the agricultural and commercial elite represented among its owners resisted. But their power was based largely on the heavy representation of coffee planters in Congress, which was closed after Vargas's 1937 coup. In 1945 government economist Octavio de Gouvêia Bulhões convinced President Vargas to take advantage of the soon-to-end eight-year congressional recess and decree the creation of the Superintendency of Money and Credit (SUMOC) as a precursor to a central bank.[46] SUMOC was supposed to be a proto–central bank in charge of formulating and implementing monetary and exchange rate policy, but it did not enjoy executive power over other state monetary authorities. In 1946, immediately after SUMOC was founded, President Dutra charged his minister of finance, Corrêia e Castro, with writing thoroughgoing bank reform legislation that would provide for establishment of a genuine central bank. The ensuing political debate was long and politically complex, reflecting many crosscutting cleavages among and within economic groups and political parties.[47] The stalemate was broken and central bank legislation passed only after the 1964 military coup circumscribed political debate and action.

[42] Topik (fn. 40), 47.

[43] Winston Fritsch, "The Montagu Financial Mission to Brazil and the Federal Economic Policy Changes of 1924," *Brazilian Economic Studies* 9 (1985).

[44] Some private bankers supported Niemeyer's report; paulista businessmen opposed it and succeeded in getting the report shelved, as they had the 1923 proposal. Otto E. Niemeyer, "Report Submitted to the Brazilian Government," July 4, 1931.

[45] Paulo Neuhaus, *Historia monetaria do Brasil, 1900–1945* (Rio de Janeiro: IBMEC, 1975), 144.

[46] Leslie Armijo, "Public Policymaking in a Semi-Autonomous State: Brazilian Financial Modernization, 1950–1987" (Manuscript, 1989), 157.

[47] Ary Cesar Minella, *Banqueiros: Organização e poder político no Brasil* (Rio de Janeiro: Espaço e Tempo/ANPOCS, 1988).

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Although the banking legislation created a new central banking institution, it also legally reinforced the role of the Banco do Brasil as a monetary authority by giving it an automatic overdraft account with the new central bank.

Motivated by its own financial needs, the government played a key role in the early history of central bank institutionalization in Brazil. This, combined with the political weight of credit-hungry agro-exporters and industrialists, contributed to the weak tradition of independent central banking in Brazil that continues to this day. In both South Korea and Brazil, governments motivated to raise financing played a leading role in institutionalization of the earliest central banks. This led to the development of weaker, more heterodox central banks than in cases where private banks played the leading role in central bank institutionalization.

Financial Motivations of Private Banks and Industry

Compared with Thai and Mexican banks and industrial firms, Korean and Brazilian banks and industrial firms had a very different financial base. In Mexico and Thailand the financial autonomy of banks from the government and low industry demand for subsidized credit provided sectoral support for the continued existence of a conservative and authoritative central bank. In direct contrast to the Thai and Mexican cases, the continuing lack of authority and conservativeness of central banks in Korea and Brazil is related to the financial dependence of private banking on government bailouts and the historic reliance of entrepreneurs on state-subsidized credit.

KOREAN COMMERCIAL BANKING

Government revenue imperatives, rather than the interests of a healthy private banking sector, shaped the early institutionalization of central banking in Korea. At least until recently, Korea has not had a financially healthy private banking sector. Colonial Korea had a number of fairly specialized, mostly Japanese-owned and operated private financial institutions that served primarily to mobilize local savings and divert them into Japanese projects. Their capital/asset ratios were good but reflected Japanese capital "following the flag." Their coffers were relatively empty by the end of World War II, when the banks were transferred to U.S. government ownership, and were still so at the time of the transfer to the Korean government in 1948. Legislation based on Bloomfield and Jensen's recommendations called for the banks to be sold to the private sector. But efforts to privatize the banks did not begin until 1954, having been delayed by the war

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and lack of Korean government commitment to the proposal.[48] Six public offerings of the commercial banks were made between 1954 and 1957.[49] In 1961 the banks were fully renationalized by the Park regime.

From 1962 until the liberalization of the 1980s, all of South Korea's so-called deposit money banks and special development banks operated under the direct control of the government. As a former head of the Bank of Korea and of the Economic Planning Board put it, between 1961 and 1979 "commercial banks had no private interests . . . commercial bankers could be regarded as the same as government employees."[50] Even after the modest liberalization of the mid-1960s, which somewhat increased bankers' managerial autonomy, the government was still closely involved in commercial bank operation. It appointed practically all the bank officers above department head and "interfere[d] with minor details of operation."[51] Woo writes, "The Korean banking system exhibits the most extreme case of dependence on the state. . . . Every bank in the nation was owned and controlled by the state. Bankers were bureaucrats and not entrepreneurs, they thought in terms of GNP and not profit."[52]

The heavy dependence of South Korean banks on the government is evident in cross-national bank balance sheet data that indicate a high level of central bank financing. These data lead us to expect Korean commercial banks to be an obstacle to the development of a strong central bank with conservative financial principles. In contrast to Thai and Mexican commercial banks, South Korean commercial banks had a great interest in loose monetary policy because they were dependent on central bank financing. Their deposit base was small relative to the demand for loans. Long-term loans to industrialists made up a large portion of their assets. By any measure—central bank loans relative to bank reserves or to total deposits, for example—South Korean banks depended heavily on government funds. On the few occasions that the central bank tried to tighten monetary policy in a way that restricted funds available for commercial banks, the latter complained vociferously.[53] Kim concludes that "changes of

[48] One reason attributed to the Rhee government was the fear of private monopolization. See Bloomfield (fn. 37, 1952), 63.

[49] Initially single-bidder purchases were forbidden to prevent decisive control by any single business group, but this policy was relaxed in 1957 and controlling interests were sold to various incipient chaebol, or conglomerates.

[50] Interview with Byung Hyun Shin, Seoul, August 22, 1990.

[51] Cole and Park (fn. 34), 65, 255–56.

[52] Woo (fn. 33), 11–12, 159.

[53] For example, ceilings set on Bank of Korea loans to the commercial banks in 1959 were lifted several times in response to strong complaints from commercial banks. In the fall of 1962 the Bank of Korea raised commercial bank reserve requirements; but when fears of rising inflation led to large deposit withdrawals, the banks pressed for and were granted a reduction. Byong Kuk Kim, *Central Banking Experiment in a Developing Economy* (Seoul: Korean Research Center, 1965), 175, 220.

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reserve requirements were made primarily in consideration of the difficult funds situation of banking and not with a view toward regulating the money and credit system."[54] Even after bank privatization began in the 1980s, the large number of nonperforming loans on the books of commercial banks left them still heavily dependent on the Bank of Korea.

BRAZILIAN COMMERCIAL BANKING

Data on the Brazilian financial sector also support an interpretation of the Brazilian case as one in which the central bank's lack of autonomy and conservativeness were reinforced by the dependence of the private banking sector on central bank financing. Table 6 shows that between 1950 and 1980 Brazilian commercial bank debts to central monetary authorities averaged 6 percent of total assets/liabilities compared with 9 percent for Korea and 2 percent for Thailand. Likewise central bank claims on Brazilian commercial banks were 7 percent of their assets compared with 18 percent in South Korea, 3 percent in Thailand, and 5 percent in Mexico. As in the South Korean case, dependence on central bank loans mirrors a history of state ownership of commercial banks. In the mid-1980s there were 105 chartered commercial banks of which 6 were majority federally owned, 24 were owned by state governments, 19 were foreign, and 56 had private Brazilian ownership.[55] The weight of government-owned commercial banks in the financial system was even greater than these numbers suggest, because the Banco do Brasil alone accounted for roughly 50 percent of the commercial bank market.

As in South Korea, so, too, in Brazil the high dependence of commercial banks on state funds and financial assets had historical roots. It also created the basis for some Brazilian banks to support loose credit and monetary policy and state intervention in financial markets.[56] As far back as the initial government takeover of the Banco do Brasil, private bankers supported state intervention because they hoped it would guarantee them government financial support. Indeed, there are numerous examples of Banco do Brasil providing support for ailing commercial banks. In 1933, for instance, the Banco do Brasil relieved the commercial banks of debts owed them by Brazil's coffee growers.[57] Beginning in 1964 the practice of finan-

[54] Kim (fn. 53).

[55] Francis A. Lees et al., *Banking and Financial Deepening in Brazil* (London: MacMillan, 1990), 141.

[56] In the imperial era and during the First Republic private bank assets were mostly government bills and bonds rather than private sector loans. In contrast to Thailand and Mexico, where the historic asset and liability structures of private banks revealed a relatively strong tie to the rest of the private sector, the Brazilian state dominated private bank activity beginning in the imperial era.

[57] Neuhaus (fn. 45), 121–24.

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cial indexing protected the banks definitively from inflation and reinforced what was, at minimum, marked indifference to central bank subservience to a seemingly inflation-preferring executive. Other financial regulations also made the status quo of central bank weakness and heterodox macroeconomic policy appealing to Brazilian bankers. They profited from arbitrage between the state-regulated portions and the free portions of the market.[58]

KOREAN INDUSTRIAL FINANCING

The financial situation of both Korean and Brazilian industry also made industrialists opponents of tight monetary policy and demanding of subsidized credit; overall, it created a constituency undisposed toward taking an interest in development of a strong, conservative central bank. In contrast to Thai and Mexican industry, which relied on internal funds and to some extent foreign financing, Korean industry was heavily dependent on domestic bank credit. The heavy reliance of Korean industry is partly due to the government's decision to push for extremely rapid industrial development. In the context of a war-devastated economy in which few actual entrepreneurs existed and potential ones had virtually no private capital, any industrialization effort would have required substantial financing beyond that available to entrepreneurs from their own sources. This situation contrasts sharply with that in Thailand, where entrepreneurs ventured into industry slowly, building wealth and earnings from long-standing and consistently profitable agro-export and service sector activity.

Kim suggests that in the 1950s Korean industry relied up to 70 percent on domestic credit for operational funds.[59] Cole and Park's data show that prior to 1965 external financing of Korean industry constituted roughly 50 percent of the total, rising to 75 percent and falling again to 33 percent in the 1970s.[60] This is roughly consistent with Sakong's data, compiled by Lim, showing 80 percent external financing with 30 percent specifically from domestic banks between 1963 and 1973.[61] Ro reports 70–80 percent external financing for the 1962–81 period.[62]

The dependence of Korean industry on bank credit dates back to the

[58] Furthermore, the government tacitly permitted the banks to operate on the edge of law and safety in the free portion of the market, earning high profits and taking great risks knowing the state would bail them out if necessary. Armijo (fn. 46), 270.

[59] Ibid., 220.

[60] Cole and Park (fn. 34), 30–33.

[61] Youngil Lim, *Government Policy and Private Enterprise: Korean Experience in Industrialization* (Berkeley: Institute of East Asian Studies, University of California Press, 1981), 39.

[62] Sung Tae Ro, "Korean Financial Markets and Targets of Monetary Policy" (Ph.D. diss., Harvard University, 1984), 61. Comparable data for Japan, 1954–67, shows 68% external financing and for the U.S., 1947–63, 35 percent external financing. Lim (fn. 61), 39.

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colonial era; it created a constituency opposed to financial monetary policies that either raised the cost or limited the supply of credit. Industry's financial dependence on government-controlled banks bound the state to continue a loose monetary policy or confront massive corporate financial failure. President Park's 1972 Emergency Decree for Economic Stability, for example, was designed in part to bail out heavily indebted chaebol, or conglomerates. Several Korean periodicals suggest that prior to the decree chaebol had pressured the government for a bailout. Although evidence of this is sketchy, it is clear that the chaebol benefited heavily from the decree.[63]

BRAZILIAN INDUSTRIAL FINANCE

Brazilian industrialists, like their South Korean counterparts, depended heavily on subsidized bank credit during the era of rapid industrialization in the 1950s, 1960s, and 1970s. According to UN research, Brazilian firms relied on external financing for 57 percent of their needs in the mid-1960s.[64] Barker cites estimates that by the early 1970s "half of all investment in the industrial sector was financed through borrowing, mostly in the form of bank loans."[65] A large portion of external financing was from direct state loans while much of the rest was from state-directed commercial bank credits. In 1974, 72 percent of investment loans and 44 percent of working capital loans to the private sector were direct state credits.[66] In concert with their historic dependence on subsidized credit, Brazilian coffee producers and industrialists from São Paulo played a significant role in opposing efforts to increase the autonomy of the Brazilian central bank and/or its capacity to implement tight monetary policy.

The Brazilian and Korean cases illustrate the dynamics leading to the equilibrium associated with weak central bank authority. Where government revenue often falls grossly short of expenditures, politicians have a strong incentive to create suppliant central banking institutions that will

[63] Stephan Haggard and Chung-in Moon, "Institutions and Economic Policy: Theory and a Korean Case Study," *World Politics* 42 (January 1990); Eun Mee Kim, "From Dominance to Symbiosis: State and Chaebol in Korea," *Pacific Focus* 3, no. 2 (1988); Cole and Park (fn. 34), 158–79; Leroy P. Jones and Il Sakong, *Government, Business and Entrepreneurship in Economic Development* (Cambridge: Harvard University Press, 1970), 107–9; Lim (fn. 61), 26. The government did occasionally discipline industrialists by letting some fail, for example, in Yulsan in the late 1970s and Kukje in the early 1980s. For more on this, see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989).

[64] Economic Commission on Latin America, *The Process of Industrial Development in Latin America* (New York: United Nations, 1966), 188.

[65] Wendy Barker, "Banking and Industry in Contemporary Brazil" (Ph.D. diss., Yale University, 1990), 73.

[66] Ibid. By the mid-1980s external financing may have dropped. Seventy-two percent of Barker's respondents said they relied on internal resources for both short- and long-term financing.

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fund government as desired and to the extent desired. The combination of government deficits and weak central banks funding them is not felicitous for the development of sound, independent private banking. Private banks become dependent on protective regulations and subsidies and develop a relatively high stake in maintaining the institutional status quo. Likewise, where private financial markets are weak and the government's drive for industrialization is strong, industrialists become dependent on subsidized credit funded by an accommodating central bank.

Conclusions

This article suggests that the impact of central bank behavior on inflation in developing countries cannot simply be attributed to legal status. Delegation of authority to proto–central banking institutions is shaped by the financial interests of those with authority to delegate: governments and private banks. The behavior of early central banking institutions tends to reinforce the financial conditions from which they emerged. This financial structure creates incentives for government politicians, private financiers, and industrialists to support the central banking status quo, and it accounts for national continuity and cross-national variation in central bank behavior.

Alternative arguments could be made to explain cross-national variation in sources of central bank authority. Although in the world of qualitative comparative method the method of difference is preferable to the method of agreement, it suffers several shortcomings.[67] At its best, this method involves a third phase of testing alternative arguments through evaluation of different pairs of cases. Evidence that the argument explains central bank behavior in other random cases would also increase confidence in the findings. Discussion of likely counterfactual events in primary cases is yet another way to extend methodological confidence.[68]

Choice-theoretic, as opposed to sociological or historical, institutionalists would look to differences in party systems and/or electoral rules for an explanation of cross-national variation in central bank authority.[69] Lohmann, for instance, argues that the federal nature of the German political system explains Bundesbank independence.[70] Generalizing from this

[67] Ragin (fn. 18), 41.

[68] James D. Fearon, "Counterfactuals and Hypothesis Testing in Political Science," *World Politics* 43 (January 1991).

[69] For an overview of the different variants of new institutionalism, see Walter W. Powell and Paul J. DiMaggio, Introduction, in Powell and DiMaggio, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991); and Kathleen Thelen and Sven Steinmo, "Historical Institutionalism and Comparative Politics," in Steinmo, Thelen, and Longstreth, eds., *Structuring Politics* (Cambridge: Cambridge University Press, 1992).

[70] Susanne Lohmann, "Federalism and Central Bank Autonomy" (Mimeo, Graduate School of Business, Stanford University, December 1992).

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argument, others suggest that a nation's place on a continuum running from a strong one-party parliamentary system (few veto players) to a multiparty presidential system (many veto players) might help explain cross-national variation in central bank independence. The fewer the number of veto players, the less likely is central bank independence.[71]

Haggard and Kaufman draw different conclusions about the impact of party systems and electoral rules. According to their logic, one would expect party structures that institutionalize strong centrist forces to increase the probability of central bank independence. The strength of centrist forces reduces political pressures that could lead politicians to try to secure central bank financing in order to buy off competing political constituencies. This yields a hypothesis virtually opposite of that generalized from Lohmann: the stronger the centrist forces (the fewer veto players), the more likely is central bank independence. This argument could be subsumed under a more general political business cycle logic suggesting that fear of losing office will give government politicians incentives to want suppliant, finance-providing central banks.[72] Goodman argues, for example, that upcoming elections are one of several conditions that can lead politicians to challenge central bank authority.[73] In an effort to refine Friedman's claim that politicians will *always* prefer limited central bank authority, Goodman suggests that increased central bank independence occurs when politicians who fear they will lose office seek to tie a successor's hands.[74] The implications of these arguments for explanation of cross-national variation in central bank interests and capacities are unclear. Should we associate high magnitude or high variance in rates of leadership change and large numbers of veto groups with high or low central bank independence?

As currently theorized, the impact of the alternative variables suggested by the party system/electoral rules approach—number of veto players and magnitude/variance in rates of leadership change—is indeterminate. This indeterminacy is borne out in the cases examined in this study. Korea and Thailand have been consistently more authoritarian, that is, had relatively fewer veto players, than Mexico and Brazil. Yet variation in central bank

[71] Mathew Shugart, in conversation.

[72] Political business cycle models attribute different mixes of partisan and opportunistic office-seeking motives to politicians. Extreme examples are (for opportunistic motives) William Nordhaus, "The Political Business Cycle," *Review of Economic Studies* 42 (April 1975); and (for partisan motives) Douglas A. Hibbs, "Political Parties and Macroeconomic Policy," *American Political Science Review* 71, no. 4 (1971).

[73] John B. Goodman, "The Politics of Central Bank Independence," *Comparative Politics* 23 (April 1991).

[74] Milton Friedman, "Monetary Policy: Theory and Practice," *Journal of Money, Credit and Banking* 14 (February 1982); John B. Goodman, "Monetary Politics in France, Italy and Germany, 1973–1985," in P. Guerrieri and P. C. Padoan, eds., *The Politics of European Integration* (New York: Harvester Wheatsheaf, 1989).

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authority cuts across this case pairing: both Korea and Thailand have few veto players but one has a weak central bank and the other an authoritative one. Similarly, there have been many sudden leadership changes in Thailand and Brazil, yet central bank authority differs significantly in these two cases.

Clark has done quantitative tests of the significance of party system characteristics and politicians' time horizons as explanations of cross-national variation in the independence of developing country central banks. He finds these variables far less significant than sectoral ones, such as the strength of industry.[75] This and other quantitative research on sources of central bank authority in developing countries suggest that party system and time horizon variables may better serve to explain variation in central bank independence over time in single countries than to explain broad cross-national differences.[76] A second group of contending arguments about sources of central bank authority rests on the concept of an epistemic community.

The stronger the epistemic community of bankers, the more likely central bank independence. An epistemic community is "a network of professionals with recognized expertise in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area."[77] Lohmann, for example, intimates that the authority of the Bundesbank is related to the strength of the technocratic community of German central bankers.[78] Although this is a plausible alternative explanation for variation in central bank authority, it leaves unanswered questions about how central bankers come to form stronger and less strong epistemic communities in different countries.

Educational programs and high compensation appear to be associated with central banks that are best able to gain authority through staffs that monopolize technical information and share a strong commitment to a single set of technical beliefs and to the central banking career. Nonetheless, the existence of scholarship programs to train central bank staff and of compensation packages that ensure staff loyalty appear to *follow from,* rather than lead to, situations in which central banks are relatively authoritative due to the circumstances of their founding.

[75] William Roberts Clark, "The Sources of Central Bank Independence in Developing Countries" (Paper delivered at the annual meeting of the American Political Science Association, Washington, D.C., September 3–6, 1993).

[76] Alex Cukierman and Steven Webb, "Political Influence on the Central Bank-International Evidence" (Revised version of a paper presented at the annual meeting of the American Economics Association, Anaheim, Calif., January 1993).

[77] Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46 (Winter 1992), 3.

[78] Lohmann (fn.70).

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An epistemic community argument about sources of central bank authority could become a corollary of the revenue imperative argument if one accepts that the role private banks play in central bank institutionalization will likely affect the strength of the epistemic community. The corollary would be that where government revenue imperatives permit private banks to play a large role in central bank institutionalization, a strong epistemic community of bankers is more likely to develop than in cases where revenue imperatives direct government to a leading role in central bank institutionalization.

A third group of alternative explanations for central bank authority might rest on the financial incentives deriving from the strength of a nation's internationally oriented economic sectors. Private banks in developing countries typically grow in association with trade activity. The larger the export sector, the more likely an independent central bank. Quick examination of this argument in the cases at hand suggests, however, that this simplistic formulation is wrong. Prior to World War I Brazil and Mexico had relatively large export sectors compared with Thailand and Korea. Yet this does not fit the pattern of variation in central bank authority among these cases. A more plausible version of this argument would be that large, stable export sectors might be associated with sound government finance and central bank independence. In this way export dependence could also become an ancillary part of the revenue imperative argument. Instability of export earnings is likely to be an important cause of the government revenue shortfalls that create incentives for establishing central banks subservient to government. Although exports were large in the Brazilian case, for example, earnings were highly unstable, contributing to the Brazilian government's repeated fiscal crises.

This discussion of alternative explanations for cross-national variation in the inflation-fighting capacity of central banks suggests they are less plausible than an explanation resting on the financial incentives of government politicians, private bankers, and industrialists. But is the argument proposed in this article sustained by other cases and by counterfactual reasoning applied to the cases discussed here? To take the counterfactual in the Thai case, for example, how would Thai central banking institutions have evolved had Thai government deficits been large? If government funds had been short, Mahit would have been hard pressed to come up with his contribution to the original capital of the Book Club. Need for a central bank as a source of financing for government deficits would have overshadowed interest in a central bank as a counterweight to foreign influence in banking. Indeed, foreign banks would not have seemed such a threat to Mahit because they would not have prospered in an inflation-prone economy

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marked by high government deficit.

Przeworski has suggested that random case selection is desirable in addition to counterfactual reasoning as a way of improving the methodology for qualitative case studies. The argument put forth here appears to hold in any number of randomly proposed cases. In Argentina, for example, government deficits have been quite high, higher than those of Brazil and South Korea in three of the five decades reported in Table 5.[79] The Argentine central bank was founded as part of an effort to find funds to bail out a majority of Argentina's private banks, which were on the verge of failure. As the financial structures argument would lead us to expect, the Argentine central bank has not been a successful inflation fighter.[80] The average term of office of the governor of the Argentine central bank in the 1980s was roughly ten months.[81]

This article has argued that to explain cross-national variation in the inflation-fighting success of developing country central banks, one should look at the incentives financial structures give government politicians, private financiers, and industrialists, rather than at central bank laws. It should not be concluded from this, however, that different analyses must necessarily be applied to developed and developing countries. It remains for further research to explore the conditions under which financial incentives do and do not transcend law in both developing and developed countries.

[79] Average annual government deficit relative to government revenue was –.95 in the 1890s; –.15 in the 1900s; –.32 in the 1910s; –1.47 in the 1920s; and –.78 in the 1930s. Compiled from B. R. Mitchell, *International Historical Statistics: The Americas and Australasia* (Detroit: Gale Research Company, 1983).

[80] A. Arnaudo, *Cincuenta anõs de politica financiera Argentina (1934–1983)* (Buenos Aires: El Ateneo, 1987), 23–31; Banco Central de la Republica Argentina, *La Creación del Banco Central y la experiencia monetaria Argentina entre los años 1935–1943* (Buenos Aires: Banco Central de la Republica Argentina, 1972), 847, 885, 992–1000; A. Estevez, *La literatura sobre el Banco Central de la Republica Argentina 1935–1946* (Buenos Aires: Ministerio de Educación, Universidad de Buenos Aires, 1954), 683–84.

[81] Cukierman et al. (fn. 4), 7.

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BARRIERS TO COLLECTIVE ACTION

Steelworkers and Mutual Dependence in the Former Soviet Union

By STEPHEN CROWLEY *

WHY, despite tremendous economic hardship, have industrial workers in almost every sector of the former Soviet Union remained quiescent? Why, despite the disintegration of the Soviet state, do the same trade unions, formerly dominated by the Communist Party and largely despised by their constituency, still hold a virtual monopoly on the representation of workers? As the former Soviet republics confront the daunting task of economic reform, few questions can be as significant as those concerning industrial workers, the predominant social group in this still very industrial society. What effect will privatization, and with it unemployment and the very probable deindustrialization of the economy, have on the former Soviet working class? How will workers respond?

This study began as a look at a small question within a much larger event. The larger event was the 1989 Soviet coal miners strike, the first mass industrial strike in the Soviet Union in over sixty-five years. Over four hundred thousand miners in several regions and republics seized control of their mines, occupied city squares, and advanced broad economic demands. The small question was this: why, in such centers of strike activity as the cities of Donetsk and Novokuznetsk, did steelworkers remain at the mills? Or put in broader terms, not why was there so much labor unrest in the Soviet Union, but why was there so little?

If the miners' actions had not continued beyond the first strike, the problem would not seem so intractable. But the miners formed a self-described workers' movement, and within two years, in March and April 1991, they renewed their strike with much more radical goals: they renounced their past economic demands and sought to lead a general strike aimed at forcing Gorbachev to resign, giving independence to the republics, and removing the Communist Party from power. Moreover, this radicalization occurred against a backdrop of political fragmentation and increasing economic hardship. The miners have since continued their mil-

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itancy and strike activity, while steelworkers and almost every other category of industrial worker have hardly made a sound.

This question of workers' collective action is addressed through a "most similar case study" of coal miners and steelworkers. Since these two groups are involved in heavy industry and are often located in the very same communities, many variables can be held constant.[1] Moreover, this contrast in behavior holds in two very different settings—Ukraine and Siberian Russia, located in different republics and ultimately different states, with sharply contrasting market positions—allowing for still greater explanatory power.

The present study briefly enumerates alternative explanations for worker mobilization (which will be examined in detail following the case studies) and then examines how previous explanations of the relationship of workers to the Soviet state might account for the miners strikes. An alternative perspective is advanced, that of the "mutual dependence" of the worker and the Soviet state enterprise. It is argued that due to the shortage economy the worker has been dependent on the state enterprise for the distribution of goods and services in short supply, while the enterprise has been dependent on workers in a labor-short economy. The distribution of goods and services through the workplace in the former Soviet Union ties workers to the firm and prevents collective action. Moreover, because the level of these benefits varies from industry to industry and from firm to firm, it can account for differences in strike activity. This thesis is examined in case studies of two steel plants, located in the center of the miners strikes.

Explaining Strikes

There has been no shortage of attempts to explain the presence or lack of working-class activism in certain groups.[2] The present case of mobilization of one group but not another within the same community leads one first to explanations rooted in industry.

Kerr and Siegel's isolated community thesis has been the classic explanation for the higher level of strike activity in certain industries. The fact

[1] Why choose steelworkers, even though their work regime is not entirely similar to that of coal miners? As mentioned, they are located in the same regions and communities. Second, the two production processes are linked, since coking coal is a major component of steelmaking; steelworkers were thus directly affected by the coal strikes, as well as more generally by the economic downturn. More importantly, steelworkers, like miners, were at the core of the once privileged Soviet proletariat, comprising a major part of the country's coal and steel economy. If the miners were to form a "workers' movement," as they professed to be doing, they understood that steelworkers had to play an integral role.

[2] For a particularly useful review of the literature, see Gordon Marshall, "Some Remarks on the Study of Working Class Consciousness," *Politics and Society* 12, no. 3 (1983).

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that certain groups of workers, miners in particular, are more strike prone is explained by the "isolated communities" in which they live, where "the miners, the sailors, the longshoremen, the loggers . . . form isolated masses, almost a 'race apart,'" and fail to form the cross cutting cleavages "which characterize the multi-industry town."[3] As we shall see, however, the opposite was the case: miners in multi-industrial towns were more radical and strike prone than miners in isolated mining communities.

Another potential explanation for collective action in certain groups is relative deprivation theory.[4] For this explanation, once the predominant interpretation, to be valid, we would expect miners' conditions to have objectively deteriorated relative to other workers and for miners to have experienced a greater subjective sense of deprivation. However, while their conditions are indeed quite bad, it will be shown that during this period of dramatic economic decline, steelworkers also suffered significant deprivations and injustices, and the steel plants themselves were centers of serious conflict.

Resource mobilization theory, particularly as employed by Tilly and his collaborators, is more useful here.[5] This perspective holds that what is necessary is not simply the desire but the ability to carry out strikes and other collective action with some chance of success. A related approach has focused on technology and the resulting organization of work as a source of obstacles or advantages to workers' collective action. Thus, that "coal miners around the world are typically the 'aristocracy' of militant labor" is said to be due in no small part to the fact that in mining, the very nature of the labor process—such as the extreme danger and the close trust this engenders among work partners—promotes unity.[6]

[3] Clark Kerr and Abraham Siegel, "The Inter-Industry Propensity to Strike," in Kerr, ed., *Labor and Management in Industrial Society* (Garden City, N.Y.: Anchor Books, 1964), 109, 111; Seymour Martin Lipset, *Political Man: The Social Bases of Politics*, enlarged ed. (Baltimore: Johns Hopkins University Press, 1981); David Lockwood, "Sources of Variation in Working-Class Images of Society," *Sociological Review* 14 (November 1966). This perspective has met with a good deal of criticism, for its highly structural nature, for its assumption that radicalism develops in isolation rather than in interaction with other perspectives and ideas, and for the fact that the interindustry propensity to strike has varied greatly over time. However, the Soviet case would seem to provide another example supporting the thesis of the isolated community. Paul K. Edwards, "A Critique of the Kerr-Siegel Hypothesis of Strikes and the Isolated Mass: A Study in the Falsification of Sociological Knowledge," *Sociological Review* 25 (August 1977); Edward Shorter and Charles Tilly, *Strikes in France, 1830–1968* (Cambridge: Cambridge University Press, 1974), esp. 287–95; James E. Cronin, "Theories of Strikes: Why Can't They Explain the British Experience?" *Journal of Social History* 12, no. 2 (1978–79); Howard Kimmeldorf, *Reds or Rackets? The Making of Radical and Conservative Unions on the Waterfront* (Berkeley: University of California Press, 1988), 13–15. For recent support of the isolated community thesis, see the discussion in Albert Szymanski, *The Capitalist State and the Politics of Class* (Cambridge, Mass.: Winthrop, 1977), chap. 3.

[4] Ted Robert Gurr, *Why Men Rebel* (Princeton: Princeton University Press, 1979).

[5] Shorter and Tilly (fn. 3); Tilly, *From Mobilization to Revolution* (Reading, Mass.: Addison-Wesley, 1978).

[6] Michael Yarrow, "The Labor Process in Coal Mining: The Struggle for Control," in Andrew Zimbalist, ed., *Case Studies in the Labor Process* (New York: Monthly Review Press, 1979), 187; see also Shorter and Tilly (fn. 3), 13.

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Conversely, the wide variety of skills required in a modern integrated steel mill appears to create obstacles to unity. These differences in skill extend both vertically and horizontally: job ladders create a greater hierarchy within the basic professions of steel manufacturing than in coal extraction, and each shop engages in different tasks, which means that workers often face very different production problems.[7]

One further significant technological difference between coal mines and steel mills is size. While the workforce of a mine ranges in number from one to several thousand, the giant steel plants in the former Soviet Union can range from several thousand to over seventy thousand employees. Beginning with Marx, some have hypothesized that "the larger the factory, the more workers interact with one another, and the less they interact with their superiors."[8] Others, to the contrary, cite the collective action problem in arguing that large plants deter solidarity.[9]

We will return to each of these potential explanations in the final section of the paper. Here, however, one needs first to address the institutional context of the Soviet political economy to understand why other workers in the now former Soviet Union have not joined the coal miners in the past four years. Western scholars have advanced several theoretical models to explain the labor peace in the post-Stalin era; each suggests a dissimilar explanation for the presence or lack of strikes in the former Soviet Union.[10]

In the totalitarian view, workers have been deeply alienated, above all by the fear of repression that kept them from organizing to defend their rights. Consequently one would expect greater strike activity, since in the absence of state repression, workers can give voice to dissatisfaction held in for decades.[11] Yet strike activity and worker organization has been extremely low in most sectors, well after the downfall of the Communist Party and the Soviet state, suggesting the need for another explanation.

The most popular explanation for labor peace in the post-Stalinist Soviet Union has been that of the "social contract" between the regime and society, of which industrial workers were among the main beneficiaries.[12]

[7] Kerr and Siegel (fn. 3), 110.

[8] Szymanski (fn. 3), 63; see also Lipset (fn. 3), 252. For Marx, see "Revolution and Counter-Revolution in Germany," in *Selected Works* (Moscow: Progress Publishers, 1969). For some empirical support, see Richard F. Hamilton, *Affluence and the French Worker in the Fourth Republic* (Princeton: Princeton University Press, 1967), 205–28.

[9] Shorter and Tilly (fn. 3), 15. Russell Hardin, *Collective Action* (Baltimore: Johns Hopkins University Press, 1982), 222–23.

[10] See the discussion of alternative views on Soviet industrial relations in Peter Rutland, "Labor Unrest and Movements in 1989 and 1990," *Soviet Economy* (December 1990), 193–95.

[11] Joseph Godson and Leonard Shapiro, eds., *The Soviet Worker* (London: MacMillan, 1981).

[12] Walter Connor, *The Accidental Proletariat* (Princeton: Princeton University Press, 1991); Linda J. Cook, "Brezhnev's 'Social Contract' and Gorbachev's Reforms," *Soviet Studies* 44, no. 1 (1992); Janine Ludlam, "Reform and the Redefinition of the Social Contract under Gorbachev," *World Politics* 43 (January 1991); Peter Hauslohner, "Gorbachev's Social Contract," *Soviet Economy* 3, no. 1 (1987); George Breslauer, "On the Adaptability of Soviet Welfare-State Authoritarianism," in Erik Hoffman

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In contrast to the totalitarian model, which has difficulty reconciling continued social peace with the decline in overt repression, the social contract model emphasizes voluntary compliance based on the state's ability to "deliver the goods." Political elites favored blue-collar workers, above all through policies of full employment, roughly egalitarian wages, and the toleration of slack work rules; in return, workers provided the social basis of support for the state.

The problems with such a conception soon become clear, however,[13] in particular, with the often implicit assumption that Soviet industrial workers were conservative and supported the status quo. This conception does not accord well with the demands made by the striking coal miners;[14] nor with the demands of steelworkers who did not strike. Moreover, this assumption is grounded in the behaviorist premise that, with the lessening of overt repression, "social peace" must be explained by voluntary compliance and legitimacy; it misses hidden sources of conflict and the obstacles to translating consciousness into collective action.

Others have suggested an alternative approach, one that might be labeled "workers' control." Burawoy and Stark, for example, using a lower level of analysis, both found sources of conflict despite the lack of strikes or other collective action.[15] They also built on the insights of Janos Kornai, who argued that the economic mechanism in state socialist societies that was able to create stunning rates of growth eventually produced widespread shortages that put a brake on further growth.[16] The continual shortage of the factors of production, including labor, created uncertainty in the labor process and in turn led management to cede control to core production workers. The labor shortage also removed the sanction of firing workers for

and Robin F. Laird, eds., *The Soviet Polity in the Modern Era* (New York: Aldine, 1984); Stephen White, "Economic Performance and Communist Legitimacy," *World Politics* 38 (April 1986).

[13] Beyond the fact that this was a contract that was never negotiated, let alone ratified, by the two parties, there is a deeper problem. Within this conception, there is no theory of the power of the social groups, such as workers, that could explain why they were the "winners" in this bargain, other than "the regime's de facto preference for certain groups' interests over others." Hauslohner (fn. 12), 59.

[14] Rutland (fn. 10); Theodore Friedgut and Lewis Siegelbaum, "Perestroika from Below: The Soviet Miners' Strike and Its Aftermath," *New Left Review*, no. 181 (Summer 1990); Stephen Crowley, "From Coal to Steel: The Formation of an Independent Workers' Movement in the Soviet Union, 1989–1991" (Ph.D. diss., University of Michigan, 1993).

[15] See Michael Burawoy and Pavel Krotov, "The Soviet Transition from Socialism to Capitalism: Worker Control and Economic Bargaining in the Wood Industry," *American Sociological Review* 57 (February 1992); Burawoy and Janos Lukacs, *The Radiant Past: Ideology and Reality in Hungary's Road to Capitalism* (Chicago: University of Chicago Press, 1992); Burawoy, *The Politics of Production* (London: Verso Press, 1985); David Stark, "Organizational Innovation in Hungary's Emerging Mixed Economy," in Stark and Victor Nee, eds., *Remaking the Economic Institutions* (Palo Alto, Calif.: Stanford University Press, 1989); idem, "Rethinking Internal Labor Markets: New Insights from a Comparative Perspective," *American Sociological Review* 51, no. 4 (1986), 492–504.

[16] Kornai, *The Economics of Shortage* (Amsterdam: North Holland, 1980). See the summary of his work in David Stark and Victor Nee, "Toward an Institutional Analysis of State Socialism," in Stark and Nee (fn. 15), 16–20.

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breaking work rules or lowering productivity, furthering workers' control over the production process.

Accordingly, it is not elite preferences but the economic system that creates labor and other shortages and thereby gives workers autonomy. If workers in a capitalist economy are atomized through labor market competition and the continual threat of unemployment, the situation in state socialist societies has been quite different. In Hirschman's terms, while workers in these societies have traditionally been denied "voice," they have used the possibilities of individual "exit," leaving jobs in a labor-short economy to find a better deal for themselves elsewhere.[17]

Mutual Dependence

Yet if workers hold such power resources, why have there not been more examples of collective action among workers in these societies, especially when voice became a real possibility? It is argued here that the worker in a state socialist society has been in a position of dependence, not simply as an individual dependent on the state, but as a working person dependent on the place of work—in particular the industrial enterprise—as the direct provider of one's basic life needs.[18] If a worker in capitalist society received a wage packet and health benefits, a worker in state socialist society received that and also housing, access to the enterprise hospital, to day care and other forms of education for one's children, often employment for one's spouse, trips to rest homes and vacation centers, and consumer goods ranging from automobiles to perishable food items. Such a set of ties can be a powerful disincentive to collective action, particularly when the distribution of these goods and services takes place largely at the discretion of management and when alternatives are few.

This depiction of enterprise paternalism is not entirely new. Andrew Walder's account of "Communist neo-traditionalism" speaks of social and economic dependence on the enterprise, political dependence on management, and personal dependence on one's superiors. Nevertheless, although his book has received well-deserved praise as a case study of industrial relations in contemporary China, it does not successfully make the case that

[17] Albert Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States* (Cambridge: Harvard University Press, 1970). For a slightly different application of this concept, see Stark and Nee (fn. 16); and George Bergsten and Russell Bova, "Worker Power under Communism: The Interplay of Exit and Voice," *Comparative Economic Studies* 32 (Spring 1990).

[18] Such paternalism is not unique to this particular time and place. The company town of American history and the current Japanese enterprise are but two other examples. There are important differences, however. In the Japanese context, for instance, the employee has access, depending on the wage level, to a range of alternatives through consumer markets. Given the shortages in state socialist economies, such alternatives have been greatly limited. See also Andrew Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1986), 15–17.

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his "type-concept" of Chinese industrial relations is among the "generic features of modern communism,"[19] since unlike the Soviet Union and Eastern Europe, China remains an overwhelmingly peasant society. The implication is that workers have not faced excess demand for their labor; rather, they have experienced considerable unemployment. This may explain Walder's rigid model of domination, which offers little chance for subordinates to escape their plight: accommodating themselves to the system is the only option. More recently Walder has revised his position along the lines suggested here, arguing that because of the lifetime tenure of Chinese workers in state enterprises, management is dependent on them and hence must provide a high level of benefits in order to maintain productivity.[20]

Indeed, in the Soviet Union this dependence has been not simply top-down, but also two-way, or "mutual": the enterprise is dependent on the worker in an economy that has created shortages of all inputs, including labor, and workers are dependent on the enterprise in that virtually all of their life needs are met through the workplace.[21] Workers have often used the taut labor market to obtain a better packet of enterprise benefits elsewhere,[22] leading managers to acquire better goods and services in order to retain current workers and attract others. Not surprisingly, turnover occurs most frequently among young (and single) workers, in part because the spouse and children of married workers are also dependent on the enterprise, many seniority rules discourage turnover, and the wait for housing is several years at the least. Moreover, the goods and services at the disposal of the enterprise are distributed very unevenly, in order to retain those skilled workers most needed for production. In this way the provision of goods and services by the enterprise forms a distinct version of the internal labor markets found in capitalist firms.[23]

[19] Walder (fn. 18).

[20] See Andrew Walder, "Factory and Manager in an Era of Reform," *China Quarterly*, no. 118 (June 1989), esp. 249–53. It should be noted, however, that because of continued unemployment rather than a labor shortage, Chinese workers have not been able to leave one job for another, a major strength of workers in the enterprises examined here. Thus, Chinese workers have had neither exit nor voice, though they have used what Scott calls "the weapons of the weak." James C. Scott, *Weapons of the Weak: Everyday Forms of Peasant Resistance* (New Haven: Yale University Press, 1985).

[21] This mutual dependence is also suggested by the term "plan-fulfillment pact." See Ulrich Voskamp and Volker Witkke, "Industrial Restructuring in the Former German Democratic Republic," *Politics and Society* 19 (September 1991); Burawoy and Krotov (fn. 15).

[22] V. Kalmyk and T. Sil'chenko, "Sotsial'no-ekonomicheskaia obuslovennost' otnosheniie k mestu raboty," in E. Antosenkov and V. Kalmyk, eds., *Otnoshenie k Trudu i Tekuchest' Kadrov* (Work attitudes and labor turnover) (Novosibirsk: Institut Ekonomiki i Organizatsii Promyshlennoyo Proizvodstva, 1970).

[23] See Paul Osterman, ed., *Internal Labor Markets* (Cambridge: MIT Press, 1984); Robert Althauser and Arne Kalleberg, "Firms, Occupations and the Structure of Labor Markets," in Ivar Berg, ed., *Sociological Perspectives on Labor Markets* (New York: Academic Press, 1981); Peter Doeringer and Michael J. Piroe, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass.: Heath, 1971).

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Workers, I argue, are caught in a collective action problem: the same selective incentives that enterprise managers have used to prevent workers from acting individually and seeking work elsewhere can also be used to prevent workers from acting collectively.[24] While workers everywhere face the problem of collective action,[25] workers in Soviet enterprises have run the risk that an unsuccessful strike would likely deprive the initiators not only of wages, but also of housing, day care, summer vacations, and the rest.[26]

How were the miners able to overcome this dilemma? The distribution of these goods and services is also highly uneven between industries, depending on the preferences of planners and the ability of management to barter its product. In some industries and enterprises workers have been better provided for, while in others, such as coal mining, workers have had less to lose. Hence, the variation in the level of this enterprise dependence between industries and even firms can account for much of the variations in strike activity.

Steelworkers

The two steel plants examined here are located in the two epicenters of the miners strikes. The Soviet economy has been characterized as "a coal and steel economy,"[27] and the two industries remain closely linked in the former Soviet republics. As a research strategy, it was hoped that the plants' locations, so close to the miners strikes, would more readily reveal the fault lines of conflict within the plants. The plants are also located in two very different regions—the Donbass and the Kuzbass—which during the course of events examined here became part of different sovereign states.

The plants themselves are quite different. The Donetsk Metallurgical Factory (or Donetskii) was established in the late 1860s by James Hughes, a Scottish entrepreneur.[28] The plant, like the other old plants in Ukraine, had been rebuilt and enlarged during the Soviet era but still relies on out-

[24] Hardin (fn. 9); Michael Taylor, *The Possibility of Cooperation* (Cambridge: Cambridge University Press, 1987).

[25] Regarding workers' collective action specifically, see Adam Przeworski, "Marxism and Rational Choice," *Politics and Society* 14, no. 4 (1985); Claus Offe and Helmut Wiesenthal, "Two Logics of Collective Action: Theoretical Notes on Social Class and Organizational Forms," in Maurice Zeitlin, ed., *Political Power and Social Theory*, vol. 1 (Greenwich, Conn.: JAI Press, 1980); James Johnson, "Symbolic Action and the Limits of Strategic Rationality: On the Logic of Working-Class Collective Action," in Maurice Zeitlin, ed., *Political Power and Social Theory*, vol. 7 (Greenwich, Conn.: JAI Press, 1986); Jon Elster, *Ulysses and the Sirens* (Cambridge: Cambridge University Press, 1984); Colin Crouch, *Trade Unions: The Logic of Collective Action* (London: Fontana, 1982).

[26] Indeed, the stakes are quite high on both sides. Even as the miners clearly gained through their strikes, managers did not lose profits; they did lose their jobs, however, as the miners often removed the old bosses and elected their own.

[27] Connor (fn. 12), 137.

[28] Theodore Friedgut, *Iuzovka and Revolution*, vol. 1 (Princeton: Princeton University Press, 1989).

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dated open-hearth technology. Its current workforce numbers more than seventeen thousand, quite large by world standards though not so in the Soviet Union.[29] The history of the West Siberian Metallurgical Complex could not be more different. Whereas blast furnaces have been fired at Donetskii for over 120 years, West Siberian was constructed in the 1960s and 1970s. This placed it on the cutting edge of the Soviet steel industry.[30] Steel at the complex is manufactured mainly in oxygen converters rather than through open-hearth casting. The West Siberian Metallurgical Complex employs over thirty-two thousand workers. Because workers in both plants acted similarly despite these strong contrasts in size, age, technology, market position, region, and ultimately different states, the conclusions about the differences between steelworkers and coal miners are strengthened.

The following case studies are based in part on in-depth interviews with steelworkers in both regions, both worker-activists and workers met at random, and in part, indeed largely, on a close reading of plant newspapers (*mnogotirazhiki)* during the two-year period surrounding the miners strikes. The strikes had a strong effect on these plants, and along with the greater political changes developing throughout society, helped turn the papers into real forums for debate and even sources of conflict between management and the workforce.

From the central press, one got the impression that steelworkers actively opposed the coal strikes, which directly affected steel production. In an interesting twist on working-class rhetoric, telegrams sent to striking miners from steel plants in 1989 and in 1991 appealed to "working-class solidarity" in asking them to go back to work.[31] Closer inspection reveals a more complex picture, however. These plants were indeed conflict ridden, and the miners strikes shook them greatly. Strikes occurred at both plants, though they never grew beyond the level of a single shop.

In fact the West Siberian complex experienced strikes several months before the July 1989 miners strike. The first strike was led by an independent "contract brigade," which would have been paid handsomely for fulfilling its plan but was unable to do so because of the lack of materials. The demands quickly went beyond norms and supplies to questioning why certain categories of workers had rights to additional holiday pay, while oth-

[29] While open-hearth furnaces produced only 7 percent of the steel in the United States in 1985 and none were being used in Japan and West Germany, the Soviet Union continued to rely on them for more than half of its steel production. Boris Rumer, *Soviet Steel: The Challenge of Industrial Modernization in the USSR* (Ithaca, N.Y.: Cornell University Press, 1989), 64.

[30] Rumer (fn. 29), 54.

[31] For instance, the workers' council of the Donetskii plant wrote to ask the miners to return to work because "the working class of steelworkers" would otherwise lose their pay and privileges. *Kuzbass*, July 18, 1989.

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ers did not. This strike was followed a month later by another in a different shop with almost identical demands.

Still one month before the miners strike, workers in the rail transport shop presented demands to the administration that were very similar to those the miners would present, including additional pay for evening and night shifts, an increase in the regional wage coefficient, and reductions in the number of managerial personnel. And "to accelerate the resolution of the demands and to not allow them to be shelved," workers in the shop formed an "initiative group," an act taken as an implicit strike threat.

When the first coal strike broke out in full in Ukraine and Siberia, both plants held meetings and passed resolutions stating, "We support the demands, but reject the strike as a method." "Workers committees" were set up by managers, with the rather clear goal of extracting concessions from the Ministry of Ferrous Metallurgy. Workers tried to form genuine workers committees and to lead strikes, but their efforts were thwarted.

Although neither West Siberian nor Donetskii (nor any other major industrial plant, for that matter) struck along with the miners in July 1989, these plants were hardly without conflict. Clearly, in contrast to the coal mines, the administration retained the upper hand in steel and other plants; the question remains how it did so. The explanation given most often by the participants themselves—whether managers, trade union officials, or worker-activists in favor of a strike—for the lack of strike activity has to do with the role of these enterprises not only in producing steel but also in reproducing their labor force, that is, in providing goods and services to satisfy virtually all the life needs of the plant's employees. Moreover, the distribution of these goods and services created the greatest source of conflict within these enterprises.

Enterprise Dependence

Soviet industrial enterprises, in the face of shortages of consumer goods and services, as well as labor, developed a unique system for providing their workforces with services, from housing to food.[32] At the Donetsk plant, as with many others, the factory provided vacations at its centers on the Azov Sea, the Black Sea, and elsewhere, had a close relationship with a state farm, as well as a department for subsidiary agriculture. The enterprise also distributed such scarce durable goods as automobiles. By providing nurs-

[32] In a chapter entitled "New Cities: The Politics of Company Towns," William Taubman refers to the more than one thousand cities built in the Soviet Union since the 1917 revolution, most of which "have been born and raised as Soviet-style company towns, in the shadow of one industrial establishment or with several establishments dividing responsibility or competing for control." These enterprises provide "housing and whatever meager services" there are. See Taubman, *Governing Soviet Cities: Bureaucratic Politics and Urban Development in the USSR* (New York: Praeger, 1973), 54.

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eries and day care for workers' children and payments for workers' funerals, the plant's services went quite literally from cradle to grave.[33] Indeed, the plant directly provides half of the services to its borough, including housing and transportation to and from work, so much so that it provided a base for the plant director's successful campaign for the borough seat in the Ukrainian Congress of Peoples' Deputies.[34]

At West Siberian, the workforce was even more dependent on the enterprise for goods and services; located in harsh Siberia and so far from Moscow, the alternatives were that much starker. At the same time, these conditions increased the difficulty of attracting and retaining workers. Moreover, with its thirty-two thousand employees, the plant was twice the size of Donetskii, and its newness and relative profitability left greater resources at its disposal. If the Donetsk plant, the biggest in the city, had dominated the borough in which it was situated, West Siberian was itself the entire borough, unimaginatively named "Factory Borough."

The plant controlled several vacation centers and eight pioneer camps, some as far away as Central Asia and the Crimea. It had its own state farm, to which various shops sent gas and other materials, as well as workers at harvesttime. As this was apparently insufficient to feed the workforce, the plant set up a rabbit farm and an aquaculture program. The entire operation was supervised by the steel plant's "deputy director for agriculture." Food production was further expanded when the plant contracted with a Moscow engineering cooperative to build a shop for producing sausage and other meat products at the plant. In addition to the plant cafeterias, which provided workers with their main meal of the day at subsidized prices, the plant had twelve stores selling foodstuffs inside the production shops and two more selling consumer goods.

This description of the social infrastructure of these enterprises creates the impression that all the workers under the wings of the enterprise have been quite well provided for. But given the enormous size of the workforces involved, these benefits are rather less impressive when considered on a per capita basis. More importantly, they were not distributed equally, and therein lies a major source of conflict within the enterprise, one that workers challenged when the political opportunity to do so presented itself. This enterprise paternalism has been closely related to the labor shortage, with privileges distributed above all to retain the skilled workers most in demand.

Thus, certain occupations were given privileges in the distribution of housing, consumer goods, such as cars and TVs, and vacation trips.

[33] *Metallurg*, August 19, 1989.

[34] Director Sledenev was subsequently elected to the higher legislative body, the Ukrainian Supreme Soviet.

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Machine toolers and pipe fitters might be given apartments in five years, whereas steel founders and rollers had to wait ten to fifteen. This sort of uneven distribution was illegal; what was allowed was privileged distribution to exemplary workers as defined by management. Other workers greatly resented both forms of privileged distribution.

The divisions were not simply between skilled and unskilled workers, but were embedded in a hierarchy that pervaded the life of the plant. If skilled workers were privileged because of the need to retain them, service workers peripheral to production were practically ignored. These latter were primarily women, who serviced the plant's enormous social infrastructure, as cooks, teachers, and janitors. Thus, in order to get housing, skilled cooks might leave the plant cafeterias to work in steel production, where shop bosses, themselves short of workers, were reluctant to let them return to their former professions.[35]

Divisions also occurred between shops. The economic reform program under Gorbachev not only devolved some decision-making power from the ministry to the enterprise but also made each subunit "economically accountable." As a result, pay and conditions began to vary widely between shops.[36]

By far the shop in the worst position at Donetskii was the open-hearth shop, which was over a hundred years old. During the 1989 miners strike management only narrowly averted a strike in that shop. Because of outmoded technology, the plan was not being met, bonuses were withheld, pay declined, and workers left the shop for jobs elsewhere, creating a vicious cycle. The situation in the shop became so critical that workers in other shops were asked by the administration to "render aid" to the open-hearth workers to increase their pay, as if they were a Third World country.[37]

In 1990, almost a year after the proposal to render aid, the plant's labor council (STK) met to discuss the tremendous problems of the open-hearth shop. The discussion revealed the interrelation of production, turnover, and "social" problems. Rather than production or turnover, "the discussion in the hall began with a no less important problem today, and one, unfortunately, very interconnected, as open-hearth workers more than once underlined, with the worsening of production in the shop. This is the housing problem." According to the steelworkers, "people are leaving production [work] because of the absence of housing, [since] the line at the factory stands for fifteen to seventeen years." After heated discussion, the council decided to grant additional privileges to steel founders and assistant steel founders

[35] *Metallurg Zapsiba*, July 11, 1989.

[36] Burawoy and Krotov (fn. 15) provide evidence of shops being pitted against each other in the wood industry (pp. 25–28).

[37] *Metallurg*, July 26, 1989.

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(decreasing the wait to five years), since while "housing, undoubtedly, isn't the only cause [of the shop's problem], it's one of the main problems."[38]

Many workers opposed this method of solving the labor shortage through the privileged distribution of housing, and fought for a single line for housing. For if the distribution of housing was connected in the eyes of management with turnover, it was connected in the eyes of the workforce with social justice, which meant distribution according to a single line, rather than according to one's position in the labor market or to one's status as an exemplary worker (*peredoviki*). At West Siberian it was asked, "Why does belonging to a certain profession (machine tool operator, wire drawer, metal worker) become the basis for receiving an apartment at the front of the line? Why are rollers, steel founders, and members of other professions worse?"[39]

At West Siberian the fight for a single line for housing led to a protracted struggle within the enterprise, which divided workers—the privileged and not—as well as workers and management, but eventually the supporters of the single line prevailed. At Donetskii, the conflict remained one over which categories of workers should be admitted to the privileged housing line.[40]

Oddly enough, as market pressures increased, the steel plants began to devote more and more attention to activities outside of steel production. This was especially so at West Siberian, one of the newest and most profitable in the industry. In 1990 the plant contracted with a Turkish firm to construct a surgical wing for the borough hospital. With the help of a German firm and a Yugoslavian construction team, the plant began building a large furniture factory inside the steel complex, with the first output earmarked for workers. In July 1990 it was said that "the production of consumer goods is occupying an ever larger place in our plant's activities." The plant opened a shop for assembly of electronic devices, including VCRs. "This year the shop will produce 10,000 VCRs, and the next year 20,000."[41] Since the local housing construction agencies had fallen apart for lack of materials and especially workers, the plant, with the help of foreign expertise, created its own construction firm.[42]

[38] Ibid.

[39] *Metallurg Zapsiba*, October 11, 1989.

[40] Ibid., November 23, 1989; author interview with AR and BM, deputy chairs of the trade union committee at Donetskii, Donetsk, July 2, 1992. Why did workers at West Siberian, where management had more resources, succeed in establishing a single line while those at Donetskii failed? Managers may have had more resources, but workers had greater countervailing resources as well. First, the labor shortage was more severe in Siberia than in Ukraine. And second, West Siberian was potentially profitable on the market, giving workers a positive incentive to organize, whereas at Donetskii everyone realized that the plant was going to remain dependent on state subsidies.

[41] *Metallurg Zapsiba*, July 13, 1990.

[42] Ibid., February 10, 1990.

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Even in 1993, after the downfall of the Soviet Union, these steel plants continued to increase the provision of goods and services. Donetskii increasingly used barter deals to provide consumer goods to employees who could not afford the spiraling prices on the market, while West Siberian built a savings bank, a shoe factory, and a brewery at the plant, and also assured its employees that no one would be left without a job.[43] In all this, talk of investment to increase steel production—the plant's raison d'être—was played down, though this would seem all the more compelling under market conditions.

The Trade Union

In theory, workers had an array of organizations charged with defending their rights. Besides the Communist Party, they were represented by the trade union and the Council of the Labor Collective (STK). In reality, however, most workers saw these groups as part of the problem rather than as its solution. The striking feature of the Communist Party organizations in the enterprise during this period is how little they seemed to matter as they withered and disappeared. Though party activists continued to participate in plant meetings, the party committee itself began to withdraw quietly into the background at Donetskii, while at West Siberian it found itself increasingly on the defensive, as the Kuzbass miners began calling for removal of the Communist Party from all enterprises. When both were removed after the August 1992 putsch, their absence was not readily apparent. The Communist Party was not the only organization forced to justify itself in the face of the miners strikes and wider political change, the STKs—intended to increase workers' self-management—were also called into question. They spent most of their time handling the distribution of the plants' goods and services. As such, they failed to define a role for themselves distinct from the trade union.

Indeed, it was the official trade union, still dominant at these and most other plants, that was most fully integrated into the system of enterprise dependence. For instance, at Donetskii, less than three weeks after the region's coal miners had first filled city squares and seized control of mines, the trade union committee met to discuss fulfilling the plan. The trade union chair announced, "In July there were twenty absences from work, twenty-eight violations of public order, and twenty-two cases of drunkenness." The results of the latest round of socialist competition were

[43] Interview with AR and BM (fn. 40); *Metallurg Zapsiba*, September 4, 1993. Walder (fn. 20) notes that managers in China have behaved in the same fashion, increasing rather than decreasing their efforts to provide benefits to their workforce in the face of market forces (pp. 249–53).

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announced: the winning brigades received red banners, a diploma, and a small monetary prize.[44]

But rather than dealing with production questions, the trade unions spent most of their time handling the distribution of the plant's goods and services. Even before the miners strike, one trade union official at West Siberian criticized the union in the following fashion:

> It's no secret that some trade union representatives see their basic function as distributive, letting the main problems get out of control, which immediately leads to conflicts between workers and management. . . . In the course of many years, people began to relate to the trade union in a purely consumer sense. The distribution of this or that good . . . became the chief indicator of the work of the trade union. The most important questions, such as workers' safety, pay and rate setting, fell to second place.

After the miners strikes, the trade unions began to speak increasingly of defending the rights of workers. Yet, in practice this meant increasing the amount of goods handed out rather than worrying about safety, wages, and norms.

For example, two months after the miners first struck, at a plantwide conference at Donetskii to elect a new trade union chair (the old one was reelected), a delegate from the casting shop raised some serious issues: due to the lack of steel, his shop had not fulfilled the plan for the second month, thereby cutting workers' wages drastically. This apparently did not concern the trade union, however. "As for the trade union committee," he added,

> it has solved the problem of the family vacation center on the Azov Sea. I consider this a social victory for the trade union committee. And our children vacation at the pioneer camp "Metallurgist." . . . Now many are saying that the trade union should not be occupied with the problems of providing workers with potatoes, meat, soap. But who will take care of these problems? I consider this the trade union committee's job.[45]

Others were not so sure.[46] As workers learned more about how goods and services were distributed within the enterprise, the trade unions became mired in scandal and workers came increasingly to resent those who were supposed to represent them.

Over a year after the miners first struck, little had changed. One delegate to a congress of the steelworkers union, which had promised big

[44] *Metallurg*, August 5, 1989.
[45] Ibid., October 25, 1989.
[46] Ibid., for how another delegate to the same conference put it:
Frankly speaking, it pains me that you have organized this conference as if it were ten to fifteen years ago. We don't talk about the sore points here. We won't revolt, if we find out that apartments are being given to Afghan war invalids ahead of the line, that a vacation trip in short supply [*defitsitnaya*] is being given to a steel founder, a furnace worker or a rolling mill operator. But we demand the just distribution of social goods. We need glasnost here, so that all will know, who obtained what. . . . I think we've ruined this conference.

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changes, reported back: "It became clear, very clear, what trade unions do. Now, we must look truth in the eye, we devote ourselves to handing out tobacco and candy, distributing consumer goods in short supply and so forth—anything but defending the interests of workers." Another delegate said, "With such 'defenders,' life will be very difficult under the market."[47]

Analysis

Steelworkers did not join the miners in striking, forming independent trade unions, and pressing political demands on the government, I argue, because most industrial workers in the Soviet Union, and now in the successor states, have found themselves in a collective action problem. If all workers in a plant struck, they would all be better off, since they would be able to control the distribution of goods and services within the enterprise, much as the miners had done.[48] But if one or more workers tried to lead a strike and failed, they would likely lose access to the privileges distributed by management.

As a steelworker from Magnitogorsk told an American historian: "We're completely dependent on them. Food, clothes, apartments, furniture, day care, summer camps, vacations—everything is allocated by them according to their lists, with which they rule over our lives. Everyone has something to lose."[49]

Explaining why the miners were the first to break out of this dilemma is not so hard. In many respects, strikes by the coal miners are overdetermined. There is indeed something unique about the labor process in coal mining, with its dangerous underground work; and this very likely fosters professional pride and solidarity. But more important are the specifics of the Soviet coal industry.

[47] *Metallurg Zapsiba*, October 10, 1990. The Central Council of the once official steelworkers union has since declared itself independent from the central trade union confederation (FNPR) and has allied itself with the independent miners union. Galina Koval'skaya, *Svobodnie Profsoyuzi Rossii* (Free trade unions of Russia) (Moscow: Allegro Press, 1993), 8–12. But this was a decision made by the top union leadership in Moscow; on the level of the enterprise, little has changed.

[48] Were the miners actually better off after striking, or were steelworkers actually smart to avoid striking, with all its attendant problems? While the miners' successes were certainly uneven, they clearly gained from their strikes in several fundamental ways. First, they gained greater control over their workplace. Second, they gained greater political and economic changes, first in the Soviet Union and later in the newly independent states. Other workers have been represented by the former state trade unions or management. Finally, the material position of miners, while hardly ideal, has improved, at least relative to that of other workers. In addition to greater control over intraenterprise benefits, wage increases have outpaced even the astronomical rates of inflation in Russia and Ukraine, so much so that subsidies to the coal industry alone (before recent efforts to raise coal prices in Russia) were absorbing 20 percent of Russian state revenues and accounted for nearly 33 percent of the state budget in Ukraine. *Izvestiia*, May 8, 1993, cited in *RFE/RL Daily Report*, May 11, 1993; *Moscow News*, June 18, 1993.

[49] He continued, "Perestroika, you say? I have a family, children, grandchildren. They want to go away for the summer. What can you say? Daddy told the boss he didn't like how he was being treated, so this year and for the next couple of years no one is going anywhere." Stephen Kotkin, *Steeltown, USSR* (Berkeley: University of California Press, 1991), 28–30.

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As far back as the late 1950s, when planners gave priority to oil and gas, "a brake was applied to the development of the coal industry."[50] From this there emerged a whole series of problems, not least of which were the extremely hazardous conditions under which Soviet miners were forced to work. While mining everywhere is dangerous, the problem became particularly acute in the Soviet Union. Accident rates there were extremely high—much higher than in the next most dangerous industry, steelmaking; or as the miners put it, for every million tons of coal extracted, one miner paid with his life.[51]

Declining investment created difficulties not only with working conditions, but also with "social problems," like housing, day care, and the rest. Miners' living conditions were often appalling: in the Kuzbass and Vorkuta, for instance, miners and their families often lived in barracks, some of which were left over from Stalin's gulags.

Moreover, the problems in the Soviet coal industry only deepened with the first attempts at economic reform. The introduction of full *khozraschet*, or self-financing, was intended to increase management's concern with profits and losses; but since it was not accompanied by price reform, it created a perverse effect, particularly in the coal industry. In order for the administrative prices in the Soviet system to balance, state purchase prices for raw materials had to be set extremely low, so that the prices of producer and consumer goods could also remain low, even after the prices reflected some of the added value. This meant that the price a mine received for one ton of coal—the official wholesale price—was roughly one-half the cost of extracting it, making the coal industry the only "planned-loss" branch in the country.[52] Since under *khozraschet* bonuses and social expenditures were intended to come out of plant profits, the already austere living conditions of the Soviet coal miners were strained even further.

Although this seems to be a case of relative deprivation, there are problems with such an argument in this context. First, the miners themselves felt the changes in investment patterns only very gradually. Second, in the case studies of the steel plants and in interviews with steelworkers met randomly, the sense of anger, frustration, and deprivation is quite clear. The very same issues raised by coal miners are raised forcefully by steelworkers again and again.[53]

[50] "Travma," *Ekonomicheskaya Gazeta*, no. 7 (1989), 17.

[51] *Kuzbass*, July 13, 1989; *Argumenty i Fakty*, no. 30 (1989).

[52] Viktor Kostyukovskii, *Kuzbass: Zharkoe leto 89-ogo* (The Kuzbass: The hot summer of 1989) (Moscow: Sovremmenik, 1990), 26. Subsidies to the branch in 1988 were reportedly 5.4 billion rubles and in 1989 a billion more.

[53] Reflecting on this very question, Burawoy produces a complex argument to explain why steelworkers did not follow the example of coal miners. First, as basic goods producers in a supply-constrained economy, miners had been privileged by the state but lost their privileged position with perestroika. Second, steelworkers were able to avoid a similar decline by shifting their product profile, thus

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More importantly, miners have been the highest paid of any category of industrial worker; at the time of their first strike they were making almost twice as much as the average steelworker. Due to decreased investment in social infrastructure, however, coal mines had fewer goods and services to distribute to their workforce. While industrial-level data on social infrastructure does not exist, regional-level data shows this to be the case, as in the following graphic statistic: the Kemerovo region of Siberia (Kuzbass), Russia's largest coal basin, ranked thirteenth in 1989 in industrial production in rubles, even at artificially low prices for coal, but was forty-third in the provision of housing, fifty-eighth in children's establishments, and eighty-ninth for social clubs.[54] In an examination of housing units built in 1979 in twenty-eight large Soviet cities, Donetsk, the coal capital of Ukraine, was twenty-third; it was greatly outpaced not only by the Ukrainian cities of Kiev and Kharkov but also by the nearby metallurgical center of Dnepropetrovsk, which came in first out of all twenty-eight cities.[55]

Thus, steelworkers were compensated with low wages and high in-kind benefits, making them more dependent, while coal miners were compensated with a low level of goods and services but high wages, giving them greater autonomy. The strategy some workers pursued was to begin their career as a highly skilled steelworker, get an apartment quickly on a privileged basis, and then to leave for the coal mines, getting both the apartment and the high wage.[56]

How did compensation with high levels of in-kind benefits create greater dependence than high wages in rubles? First, when workers are tied to a job through a paycheck alone, this "cash nexus" becomes a fragile con-

getting higher state purchase prices for their goods. Third, miners, owing to their unique work regime, experienced an exaggerated form of "workers' control" over production, which contrasted more sharply with their exploitation by the state. Burawoy, "The End of Sovietology and the Renaissance of Modernization Theory," *Contemporary Sociology* 21 (November 1992), 780–81. This argument breaks down on each point, however: the steel industry in the former Soviet Union has suffered dramatically during the overall decline in production; changing one's product profile is no longer valid given the lack of state orders and the glut on the steel market; and the miners' political militancy toward the state was a product of their strike activity and subsequent organization rather than a precursor to it. On this last point, see Crowley (fn. 14).

[54] Kostyukovskii (fn. 51), 62. Mines were doubly disadvantaged in terms of social infrastructure. First, a mine has a definite life span. Unlike an industrial factory that theoretically can be continually modernized, there is less incentive to sink capital into permanent infrastructure such as housing or cultural and educational facilities in a mining settlement. Second, many mining communities are indeed isolated, and while this in itself does not breed radicalism as the isolated community thesis maintains, it does mean there is less social infrastructure than in a larger city. Indeed, the differences in the living conditions for miners and steelworkers in the Donbass were evident from its initial industrialization over a hundred years ago. See Friedgut (fn. 28).

[55] The numbers are even worse for Donetsk when the number of marriages and thus presumably the number of new housing applicants is compared with the number of new housing units built; then Donetsk was twenty-fifth. Henry Morton, "The Contemporary Soviet City," in Morton and Robert Stuart, eds., *The Contemporary Soviet City* (Armonk, N.Y.: M. E. Sharpe, 1984).

[56] *Metallurg Zapsiba*, November 7, 1989.

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nection because it is a single strand: a disruption in wage levels can quickly transform quiescent workers into militant ones.[57] Second, unlike many of the benefits distributed through the enterprise, wages can be saved to be spent later, for example, when scarce goods became available or during a strike. Third, wages have been easier to replace, even in the event of losing one's job, than in-kind benefits. Due to the labor shortage, workers fired for disciplinary reasons were able to find new employment soon thereafter, in many cases at higher wages than in their previous jobs.[58] But for a worker who had invested years waiting for an automobile or an apartment and was nearing the top of the list, loss of the position in line would be a terrible blow.[59]

Alternative arguments remain, in particular, those pertaining to the technology of production and the resulting organization of work. Arguably, if the labor process in mining fosters solidarity, the workforce in a modern integrated steel mill is more stratified—along job ladders and across shops—lessening the potential for solidarity. While this argument appears forceful, there are reasons to question several of its assumptions. First, the steel industry is highly strike prone in some countries but not in others,[60] suggesting that such factors as unions, the state, and cultural and other institutions are more important than technology. Moreover, as Katherine Stone has argued with reference to the origins of job structures in the American steel industry, there was actually a "lack of important skill differentials between the jobs in steel-making"; and furthermore, those job ladders and classification schemes that did arise were largely artificial constructs of management, rather than the result of technological imperatives.[61]

In the present case, moreover, the divisions that occurred among workers were most salient for the workers themselves when the privileged distribution of goods and services was involved. The in-kind benefits distributed within the enterprise greatly facilitated the creation of an internal labor

[57] John H. Westergaard, "The Rediscovery of the Cash Nexus," *The Socialist Register 1970* (London: Merlin Press, 1970), esp. 120–21. Thus miners in Vorkuta, of Russia's Far North, were drawn from other parts of the Soviet Union in the hope that savings from high wages would allow them to buy a home and retire in Russia's temperate South. Inflation immediately wiped out those plans. See "In Russia's Far North, Inflation Destroys a Dream," *Moscow Times*, March 3, 1993.

[58] Connor (fn. 12), 172.

[59] Thus, although important, wages represented only one component of an overall compensation package. Both steelworkers and miners demanded wage increases. The Hungarian experience suggests that the preference for wages versus in-kind benefits varies with the scope of the consumer market. In Hungary many years of economic reform created a more advanced market for consumer goods and services, and consequently wages were valued above enterprise emoluments. See Stark (fn. 15, 1986); Burawoy and Lukacs (fn. 15). Given prices out of the reach of many consumers, this has not yet occurred in Russia.

[60] John E. T. Eldridge, *Industrial Disputes: Essays in the Sociology of Industrial Relations* (London: Routledge and Kegan Paul, 1968).

[61] Stone, "The Origin of Job Structures in the Steel Industry," *Review of Radical Political Economics* 6 (Summer 1974), 156.

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market in several ways. This privileged distribution allowed managers to respond to a taut labor market, for skilled labor especially, despite the often rigid central determination of wage structures. Further, while workers often knew what other workers were receiving in their monthly paycheck, the privileges entailed in the distribution of benefits according to lists were a mystery. In fact, the sharpest conflicts at these two steel plants during this time occurred when workers first tried to apply "openness" (glasnost) to the system of privileged distribution and then tried to remove those privileges. Hence, many of the demands raised by steelworkers, as well as miners, concerned not higher wages and benefits but information on the economics of their enterprise and the system of intraenterprise distribution. Even as management attempted to use the goods and services at its disposal to respond to the taut labor market, it tried to hide that fact from a workforce whose sense of justice includes the notion of pay according to labor.

One further significant difference between the coal mines and the steel mills examined here is size. The lack of full-scale strike activity at these huge plants would seem to be a confirmation of the thesis that large plant size is an obstacle to collective action. Indeed, in terms of its workforce a mine is more comparable to a single shop than to an entire steel complex. Stated this way, however, the explanation is insufficient. While the difficulties in communicating and organizing activity between the shops of these large plants would certainly be significant, this was no less an obstacle than that originally faced by miners in separate mines. Yet these miners combined: while only several individual mines struck in the spring of 1989, by July the Mezhdurechensk miners had set off a ripple effect throughout the Soviet Union.[62] By contrast, individual shops struck in the two steel plants studied, both before and after the miners, yet they failed to spark similar actions in other shops.

Typically missing from discussions of plant size and collective action is the corresponding size of management in these large plants. According to one steelworker:

> We're all in one group, in one place, with one boss [*kulak*] . . . if some kind of revolt begins in one shop, then the administration tries to somehow pacify it, and somehow frighten workers with its actions, so there is no solidarity. Here I'll give one example from my own shop: when the shop announced that there would be a strike, then the administration literally immediately got together and there was a leaflet sent around, that participants in the strike will suffer this, and this, and this punishment: lose their wages, lose subsidies for their children, then all the privileges that workers get.[63]

[62] On the creation of a ripple effect as a way out of the collective action problem, see John Chamberlin, "Provisions of Collective Goods as a Function of Group Size," *American Political Science Review* 68 (June 1974), 707–16.

[63] Author interview with Oleg Semyenov, Novokuznetsk, May 3, 1991.

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As we have seen in the cases of the two steel enterprises, management—at both the shop level and the enterprise level—intervened often to maintain control over the plant and its workforce. And yet, as the last part of the above quotation indicates, the issue was a question not simply of management domination but also of the levers that it wielded: the privileges extended to workers to prevent them from acting individually (to take advantage of the taut labor market to exit) can also be used to prevent them from acting collectively. Once again, we return to the importance of mutual dependence.

One might argue that we are left with partial explanations. Even the "most similar cases" of coal mining and steelmaking still leave many differences in the work experiences of the two groups, which may account for differences in strike activity. How can one untangle these alternative explanations? Fortunately, for present purposes, the most similar comparative case method can be pursued even further to include counterexamples—coal mines that did not strike.

Participation during the 1991 strike was spotty: some mines joined in the middle of the strike, others dropped out, and still others produced coal for local use with the blessing of the strike committee.[64] There were also mines that did not strike at all. Though the mines that did not strike were often quite different from one another, they all shared a common characteristic: the enterprises were all linked to a trading partner in such a way that a strike would cut off the provision of vital goods or services to the workforce.

Three types of mines fall in this category. One group of mines less prone to strike, as described above, consisted of those that made up the very "isolated communities" that were expected to be most strike prone. These mines often had close links with nearby state or collective farms that provided foodstuffs to the workforce. Had the mines struck, they would have violated their contracts with these farms and in turn would have lost their source of food supplies, especially hard to obtain in industrialized coal basins.

A second group of mines that did not strike were those, more often located in urban areas, which, either through rich geological endowments or through managerial skill, had created links not only with state farms but with producers of consumer goods. These arrangements typically involved barter deals that provided scarce and valuable goods, including VCRs and foreign cars.

[64] In this last category, some mines provided coal to local metallurgical and power plants. The phrase that some mines were working "with the blessing of the strike committee" may have been a way for both the particular mines and the strike committee to save face given the less than full participation in the strike.

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One such mine, Zasiad'ko, is something of a local legend in the city of Donetsk.[65] During the 1991 strike, in an article entitled "Why the Zasiad'ko Mine Is Not Striking," a coal face worker explained how the mine, through the work of its director, had developed "an entire trade and industrial complex" that included contracts with trade organizations for clothes, shoes, furniture, and automobiles, while barter deals provided the miners with cassette players, VCRs, and televisions at subsidized prices. To transport all these goods, the mine had obtained its own truck depot, and to improve export prospects, it had joined with other enterprises in purchasing a freight ship.[66] As for striking, the face worker explained:

> We . . . well understand that if we shut down the mine, we will worsen our material position, since no one will pay our wages. . . . There will be no means to maintain the sanitoria, meat and vegetables will disappear, housing construction will stop, the day care centers will close.
>
> What's more, our trading partners will demand our forfeiture. We will suffer enormous losses.[67]

A third category of mine that did not participate in the 1991 strike included those controlled by the miners themselves, as a result of their earlier strike. Some of these miners had created joint-stock companies with foreign partners, which could promise a relatively high standard of living for all employees. One miner-activist, Yurii Gerol'd, managed to achieve this for his mine. Gerol'd was elected chair of his mine's STK after the July 1989 strike, although he had only just started working there as a foreman. Young and forceful, he was immediately elected deputy chair of the Kuzbass regional strike committee and helped prepare the protocol, signed by the miners and the government commission, that ended the strike. He was later elected cochair of the Confederation of Labor, as well as a people's deputy of the Russian Federation, the latter on a program of "enterprise independence" and end to "the alienation of the working person . . . from the product of his labor."[68]

By March 1991, when the Kuzbass miners were striking to bring down the Soviet government, Gerol'd resigned from the city and regional strike committees and the Confederation of Labor (although he remained a people's deputy). His mine, Polosukhinskaya, continued to operate. Remaining

[65] For more on the Zasiad'ko mine, see Stephen Crowley and Lewis Siegelbaum, "Survival Strategies: The Miners of Donetsk in the Post-Soviet Era" (Manuscript, 1993). The following paragraph is largely drawn from that paper.

[66] *Verchernyi Donetsk*, April 17, 1991.

[67] Ibid. A Siberian mine with a similar history and paternalistic scope is described by Petr Biziukov and Simon Clarke, "Privatization in Russia: The Road to a People's Capitalism?" *Monthly Review* (November 1992).

[68] Author interview with Yurii Gerol'd, Moscow, February 27, 1991; *Nasha Gazeta*, February 20, 1990.

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true to his principles of creating independence and ending labor's "alienation," at least in one mine, Gerol'd had sought and helped find a foreign partner for a joint-stock company, which promised a relatively high standard of living for all of Polosukhinskaya's employees. Participation in the strike would have meant an end to the joint-stock arrangement. Thus, Gerol'd and his colleagues were faced with a choice between maintaining solidarity and remaining part of the workers' movement, or keeping their relative prosperity and independence—the final goal, in the miners' eyes, of their political strike against the Soviet government.

The common denominator for each of the three categories of mines was a contract arrangement with horizontally linked trading partners, which provided the mines' employees with goods and services at levels significantly higher than those of the average mine. Of course, miners who did strike sacrificed a good deal. But while striking miners were provided with a strike fund, however meager, these contract arrangements provided miners with goods and services that a strike fund could not buy.[69]

Thus, even across firms in the same industry, dependence on the enterprise as the distributor of vital goods and services has remained a strong inhibitor of strike activity and workers' collective action. Can the lack of a high level of enterprise dependence account for strikes in industries other than coal mining? While a definitive answer lies outside the scope of the present study, a look at the industries and sectors where strike activity has occurred suggests that this may indeed be the case. As we have noted, the provision of goods and services at the disposal of an enterprise varies greatly across enterprises as well as across industries. While some strike activity has occurred in sectors that control a valuable product which can be sold for high prices on the market—for example, among oil and gas workers and gold and silver miners—most strike activity, outside of coal mining, has occurred among transportation workers (railroad and public transport workers, dock workers, merchant marines) and white collar employees (doctors, teachers, and air-traffic controllers).[70] While there may be alternative explanations for strikes among these particular workers, all lie outside the traditional heavy industrial sector, where worker collective action could be expected to occur and where enterprise goods and services have been concentrated.

Just how generalizable is the concept of "mutual dependence" to other former communist societies? The dependence of the worker and the state enterprise is a product of the shortage economy, itself a result of economic

[69] There were no cases that I found, in the central, regional, or local press, or during fieldwork, where miners broke such a significant contract arrangement to strike.

[70] Linda Cook, "Labor's Response to the Soviet Post-Communist Transition" (Paper presented at the annual meeting of the American Political Science Association, Chicago, September 1992).

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centralization. Thus, where the economy has been more centralized, such as in Bulgaria or Romania as well as the Soviet Union, one would expect this mutual dependence to be stronger than in a relatively less centralized economy, such as in Hungary or Poland.[71] Moreover, shortages, especially in the consumer sector, were alleviated to a greater extent in some Eastern European societies through private farming, toleration of petty entrepreneurship, and the shorter legacy of Communist Party rule. This independent economic activity also extended to the social realm, where independent institutions created greater social space. Hence, workers in Poland were able to overcome dependence on the workplace and act collectively due to greater alternatives and the space provided by such institutions as the Catholic church.[72]

What are the implications of this system of enterprise distribution? First, it is time to reconsider some of the conceptions used by Sovietologists to explain the relative labor peace and the compliance of workers and other groups in Soviet society. The totalitarian perspective emphasized the domination of the Communist Party, but as we have seen, many of the institutions within state enterprises have survived the downfall of the Communist Party and, indeed, of the Soviet state. On the other hand, the antithesis of the totalitarian perspective, the social contract approach, assumed that the quiescence of labor, in the absence of terror, signified voluntary compliance, largely because the distribution of goods and services throughout Soviet society appeared to favor blue-collar laborers. Yet we have also seen that the distribution of these goods and services, especially through the industrial enterprise, was itself the source of great conflict.

The concept of "mutual dependence" has been proposed here to explain the relationship of the industrial worker to the Soviet enterprise. Although we have emphasized the dependence of the worker on the enterprise in order to explain why steelworkers and others did not strike, the other side of this equation should not be underestimated. It was the shortage of workers that compelled managers to increase the supply of housing and

[71] Regarding a different social consequence of the shortage economy, see Katherine Verdery, "Nationalism and Nationalist Sentiment in Post-socialist Romania," *Slavic Review* 52 (Summer 1993), 182–83. Trade unions in Bulgaria and Romania have been transformed from above, without widespread collective action (outside mining and a few other sectors) from below.

[72] A full accounting of the rise of Solidarity is clearly beyond the scope of this paper. Among the other factors present in Poland and not in the Soviet Union were nationalism and the experience of previous worker uprisings; all contributed not only to workers uniting but also to workers uniting with other classes. See Roman Laba, *The Roots of Solidarity: A Political Sociology of Poland's Working-Class Democracy* (Princeton: Princeton University Press, 1991); Michael Kennedy, *Professionals, Power and Solidarity in Poland* (Cambridge: Cambridge University Press, 1991). In Hungary, where little collective worker activity occurred even as shortages decreased as a result of market reform, workers continued to pursue individual strategies in seeking to take advantage of the consumer market—a reminder that the market also presents obstacles to workers' collective action.

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other benefits at their disposal. And while these emoluments may have reduced turnover and prevented strikes, managers, faced with such a shortage and the need to meet the plan, were much less able to control workers on the shop floor. Conversely, as the labor shortage disappears and is replaced by a labor surplus, the relative position of workers will decline further. It is far from certain that workers will be compensated for the loss of the exit option with a gain in their ability to use their voice.

Thus, the Soviet institution of distributing social services through the workplace will very likely affect the course of reform efforts, and the concept of mutual dependence suggests some hypotheses concerning the economic and political transformation in the former Soviet Union. One of the major obstacles to the privatization of the state sector remains the absence of viable substitutes for the enterprises now supplying vital services to a large part, perhaps a majority, of the population. To cut credits to these enterprises, forcing many to close, would deprive their workers not simply of wages and benefits (which could be replaced temporarily at least by unemployment payments), but also of access to housing, health care, child care and important sources of food and consumer goods as well. Other alternatives are not currently feasible: private providers of such services would have to charge prices beyond the reach of their potential customers; and local governments are reluctant to take on more burdens, as they are already dependent on taxes from these very enterprises for even the paltry services they now provide. Thus one hypothesis would be that privatization (and the closure of unprofitable enterprises) will be most difficult in the Soviet-style company towns, where one or more enterprises provide virtually all social services to the urban population.[73]

Moreover, the system of enterprise distribution also explains the continued domination throughout the former Soviet Union of the once official trade unions. Because the trade unions are the distributors of housing, automobiles, and televisions, as well as pensions and sick pay, workers have been afraid to sign a form stating they wish to leave the old trade union.[74] Thus, these trade unions have survived the collapse of the Communist Party and the state, even though they are generally abhorred by their con-

[73] One clear analogy with the steel enterprises discussed here are the company towns of early capitalism. Ironically, however, whereas enterprise dependence in the former Soviet Union appears to be a case of a bloated welfare state, it was the establishment of the welfare state in capitalist societies that finally ended the worker's near total dependence on the employer. By guaranteeing a minimum standard of living regardless of one's work performance, the welfare state ended the employer's direct control over the reproduction of the labor force. See Burawoy (fn. 15), 125–26.

[74] To call such items "selective incentives" is misleading in at least two respects: they were originally intended not to retain members in the trade union, but rather to keep workers in the enterprise, and they have become the primary service these organizations provide. On the term "selective incentives" as applied to trade union membership, see Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1977); and the critical discussion in Crouch (fn. 25).

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stituency. They hold a virtual monopoly on workers' representation and are attempting to form corporatist bargains in their name with the state.[75] Therefore, a further hypothesis would propose that the former state trade unions will continue to flourish until the state(s) finds an alternative mechanism for performing the social-welfare functions currently handled by the trade unions (with the corollary that alternative trade unions, in order to compete for members, will have to perform these same functions).[76]

The dissolution of the Soviet Union and the collapse of the central allocation economy has affected the paternalism of state enterprises in contradictory ways. Some enterprises, deep in debt and unable to obtain sufficient credits, have simply abandoned many of the former services (such as vacation centers), leaving workers to fend for themselves. Other enterprises, such as those in the coal and steel industries examined here, have actually increased their provision of goods and services in the face of continued shortage, spiraling prices, and the inability of local governments to provide additional services.[77]

Why might managers continue to expend valuable resources on procuring goods and services for the workforce, especially when market pressures are increasing and the threat of unemployment is replacing the labor shortage? Walder has recently argued that in China, despite considerable market reform and high unemployment, the position of state enterprise manager remains as much a political position as an economic one. The enterprise itself comprises a "socio-political community" that places considerable pressure on managers from below. Thus, managers must be concerned not only with maximizing profits, but also with "enhancing employee income and . . . delivering a wide range of other benefits and services to their employees."[78]

In the former Soviet Union such positions have become even more directly political. As noted above, the director of the Donetskii steel plant was elected to the Ukrainian Supreme Soviet, joining many other industrialists who have formed powerful blocs in the Ukrainian and Russian parliaments.[79] While striking miners in most cases removed their old directors

[75] On the corporatist bent of these trade unions, see Cook (fn. 70).

[76] According to the official trade union chair at one Donbass mine, "At first the NPG . . . pushed aside health issues, daily life concerns, and all the rest. But now the NPG takes care of everything up to trade and the distribution of foodstuffs, that is, those things for which the NPG leaders always cursed us." *Pozitsiia*, May 6–12, 1992, p. 1. The same appears to be true in Vorkuta. See Michael Burawoy and Pavel Krotov, "The Economic Basis of Russia's Political Crisis," *New Left Review*, no. 198 (March–April 1993), 60–64.

[77] This was certainly the case in Donetsk in the summer of 1992 and Novokuznetsk in the fall of 1993. This is especially so since the barter economy provides workers in privileged sectors with scarce consumer goods rather than high wages. See Crowley and Siegelbaum (fn. 65).

[78] Walder (fn. 20), esp. 249–53.

[79] As of this writing it is too early to tell whether the latest Russian elections have sent fewer enterprise managers to parliament. Preliminary analysis by the author suggests that managers have indeed used their resources to elect, if not themselves, then at least like-minded representatives.

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and elected new ones, Donetskii's Sledenev used his plant's largesse to get himself elected political representative from the borough. He has since used his new political position to seek contacts, both foreign and domestic, for expanding the economic base on which his power rests.[80]

This ability of managers to maintain political control of the enterprise also helps explain why most directors prefer privatization plans that give large numbers of shares to the labor collective. Managers clearly believe that far from leading to direct worker ownership, this is the best way for them to remain in command.[81] This leads to a further hypothesis: current plans for "employee ownership" through the purchase of majority shares in joint-stock companies will give workers de jure control of the enterprise but will remain a formality, just as did the Gorbachev-era law on electing enterprise managers. (To this should be added the corollary that, just as the coal strikes transformed the enterprise election law into a source of real power for the miners, enterprises experiencing strikes under such an ownership system could result in de facto workers' control.)[82]

In the longer term, the future of enterprise dependence is limited, even if it is difficult to determine when the longer term might arrive.[83] If credits to state enterprises are eventually cut off, leading to bankruptcies and full-scale unemployment, it would eliminate the main reason for enterprises to supply workers with goods and services in the first place—to attract and retain skilled workers in a taut labor market. At the same time, unemployment and the uncertainties of a market economy would likely create new obstacles to, as well as opportunities for, workers' mobilization.

If the concept of mutual dependence is historically limited, it is theoretically limited as well. Structural and rational-actor perspectives, on which the concept of mutual dependence has drawn, have been helpful in explaining how individuals are or are not able to overcome obstacles to collective action. Yet the rational actor approach—assuming preferences as static and indifferent to ideology—is rather less helpful in explaining what occurs once individuals do act collectively. For example, such individual-level, rational choice analysis does not account for how the coal miners, once mobilized, transformed their objectives from supporting "perestroika from below" to trying to bring down the Soviet state. But that is a topic for another paper.

[80] Interview with AR and BM (fn. 40). The director of the Zasiad'ko mine mentioned above first used his economic position to be elected a member of the Ukrainian parliament, was later elected mayor of Donetsk, and from there was appointed prime minister of Ukraine.

[81] Simon Clarke, "Privatization and the Development of Capitalism in Russia," *New Left Review*, no. 196 (November–December 1992).

[82] Indeed, as the miners' experience shows, the ability of managers to control such institutions is not absolute. Thus managers must carefully balance a paternalism that on the one hand ensures their continued control and on the other hand does not provoke concerted action by workers that could remove them from office.

[83] The work of economic historian Douglass North makes one cautious about predicting the rapid demise of such institutions, no matter how revolutionary the change in economic structures or even property rights. See North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990).

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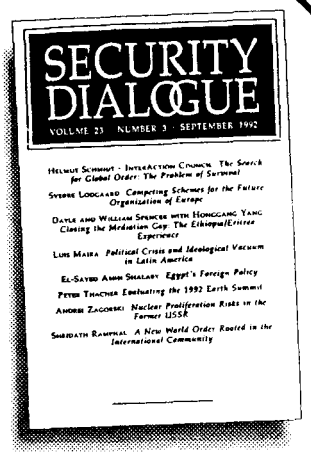

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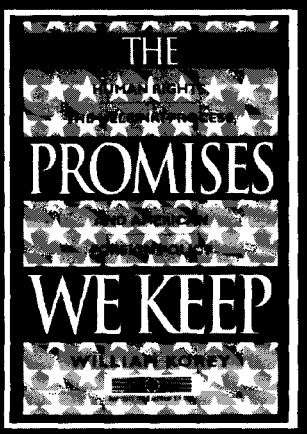

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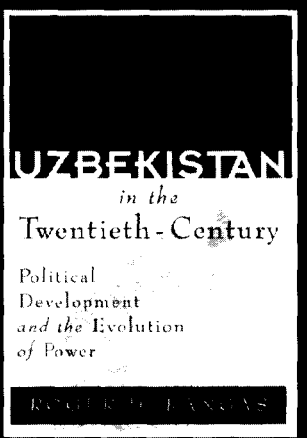

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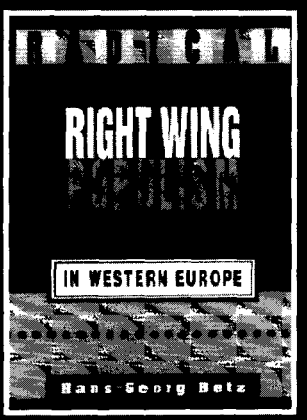

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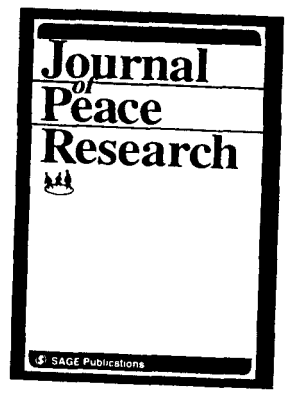

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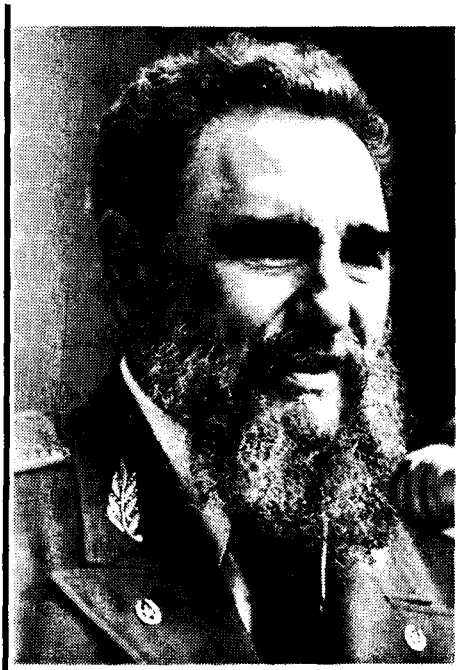

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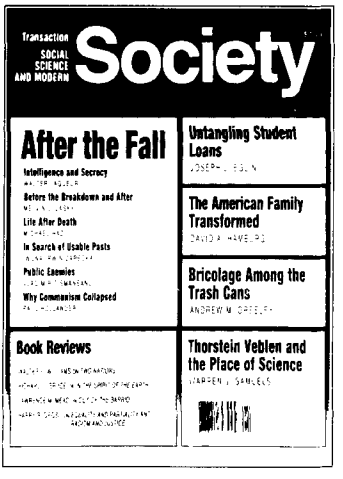

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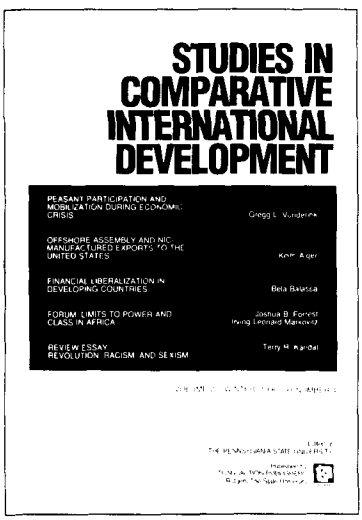

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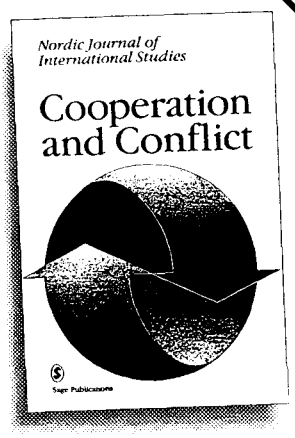

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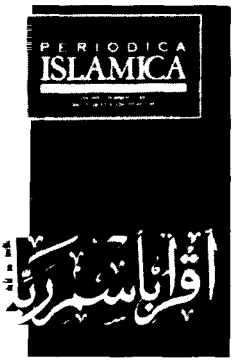

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